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Emu exposed
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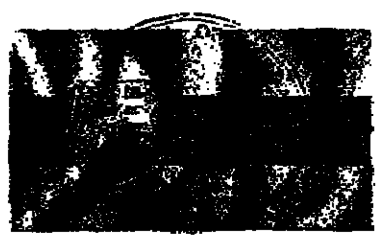

Today's surveys
Slovakia
Aluminium
Separate sections

World Business Newspaper http://www.FT.com WEDNESDAY OCTOBER 23 1996

Israel promises 'definitive' peace plan for Mideast

Israeli prime minister Benjamin Netanyahu promised proposals for a "definitive" Middle East peace settlement, but warned it would be different from plans by the previous Labour government. His remarks came at a news conference with visiting French president Jacques Chirac. Mr Netanyahu apologised to Mr Chirac for the zealous way security forces protected him during a walk-about in east Jerusalem (above). The president had shouted: "No security now. I don't want you. Go away. You have no business here." Page 4; Observer, Page 13

Denmark to block anti-US move: Denmark said it would veto the European Union's efforts to retaliate against Washington's anti-Cuba trade laws. Page 14; Editorial Comment, Page 13; Cuba recovery hopes hit, Page 5

Kohl wins backing for tax reforms: German chancellor Helmut Kohl's Christian Democratic Union backed plans for a radical income tax reform that will cut tax rates but tax capital gains from share sales. Page 2

Merger plan attacked: The UK Office of Fair Trading and its German equivalent, the Bundeskartellamt, attacked the European Commission's proposal to increase its powers to vet European mergers. Page 3

Polls show Clinton strongly ahead: Four opinion polls give US president Bill Clinton leads ranging from 15 to 22 points over Republican presidential candidate Bob Dole. Page 5; Clinton commits US to expanding Nato, Page 14; Editorial Comment, Page 13

Digital turns in first-quarter loss: Digital Equipment reported first-quarter losses of $66m, raising concerns about the US computer group's ability to restart its stalled turnround. Page 15

Japanese finance group collapses: Yokohama-based finance company Nichiei Finance filed for bankruptcy with liabilities of Y991.4bn ($8.8bn), the largest corporate collapse in Japan's postwar history. Page 15

Spain secures Eurofighter funds: Spain agreed an interim arrangement to fund its participation in the next phase of the four-nation Eurofighter 2000 programme. Page 2

Britain denies trade-off with Argentina: UK foreign secretary Malcolm Rifkind dismissed as "total rubbish" suggestions that Britain had relaxed its arms embargo against Argentina as part of a trade-off involving oil exploration in the south Atlantic. Page 10

EU warned over payments system: The European Union risks a financial "war" if Target, its future single currency payments system, discriminates against non-EU and non-European Monetary Union countries, a senior Swiss banker warned. Page 2

SmithKline Beecham ahead: Growth in US sales helped UK pharmaceuticals company SmithKline Beecham raise third-quarter pre-tax profits 20 per cent to £374m ($583.4m). Page 15

Saab drops plans for small car: Struggling Swedish carmaker Saab Automobile shelved plans to introduce a small car. Page 15

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Investors' guide to Europe's largest ever initial public offering. Pages 18 & 19

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	6,059.20	(-31.67)
NASDAQ Composite	1,220.03	(-16.38)
Europe and Far East		
CAC40	2,175.61	(-4.61)
DAX	2,718.98	(-10.05)
FTSE 100	4,057.2	(-15.9)
Nikkei	21,123.68	(-179.27)

US LUNCHTIME RATES	
Federal Funds	5 3/16%
3-mth Treas Bills: Yld	5.103%
Long Bond	99 3/16
Yield	6.808%

OTHER RATES		
UK: 3-mo Interbank	5 31/32%	(6%)
UK: 10 yr Gilt	99 27/32	(99 5/16)
France: 10 yr OAT	104.24	(103.96)
Germany: 10 yr Bund	102.13	(101.81)
Japan: 10 yr JGB	102.1994	(101.832)

NORTH SEA OIL (Argus)		
Brent Dated	$n/a	(25.12)

GOLD		
New York: Comex		
(Dec)	$386.1	(383.9)
London:		
close	$383.5	(381.80)

DOLLAR		
New York: lunchtime		
£	1.5965	
DM	1.5334	
FFr	5.1821	
SFr	1.26225	
Y	112.885	
London:		
£	1.5975	(1.5905)
DM	1.5350	(1.5362)
FFr	5.1878	(5.1908)
SFr	1.2651	(1.2645)
Y	112.890	(112.735)
Tokyo close:	Y 112.47	

STERLING		
DM	2.4521	(2.4433)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Es265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Fears over Yeltsin prompt call for election

Yegorov claims Russia ruled by 'Rasputinesque' clique

By Chrystia Freeland in Moscow

Russian president Boris Yeltsin's former chief of staff yesterday called for pre-term presidential elections, saying his former boss was too ill to rule the country and was being manipulated by his "Rasputinesque" entourage.

Mr Nikolai Yegorov said: "He [Mr Yeltsin] is remote from reality. He does not know what is happening in Russia."

The demand by Mr Yegorov, who served the president until July 15, follows a turbulent week in Russian politics which saw the fall of Mr Alexander Lebed, sacked from his job as security chief, and the continued rise of Mr Anatoly Chubais, the powerful new Kremlin chief of staff who was appointed to an elite council the president created to run the country more smoothly.

These power-plays, and Mr Yeltsin's continued absence from public politics ahead of a heart bypass operation scheduled for mid-November, have pushed the question of who is running Russia to the top of the country's political agenda.

Mr Yegorov, who is fighting to keep his post as governor of the southern Russian region of Krasnodar in elections next weekend, painted a picture of an ailing president who had ceded control of the country to a cabal of Kremlin insiders, centred on Mr Chubais and Mrs Tatyana Dyachenko, the president's younger daughter.

"Some people compare the situation with that in 1917 – the same feeling that nobody is running the country, the same Rasputinesque intrigues around the head of state," Mr Yegorov told Komsomolskaya Pravda, a Russian daily newspaper, yesterday.

Mr Yegorov, who was associated with a group of now ousted hardline politicians when he was in office, said Mr Chubais and Russia's two most prominent media and financial barons, Mr Vladimir Gussinsky and Mr Boris Berezovsky, were systematically purging everyone but their own loyalists from the government.

The southern Russian governor, who has faced corruption allegations over the past few months, said the key to this group's influence was the president's daughter. He alleged that Mrs Dyachenko, who was closely involved in her father's re-election campaign, was pushed into politics to give the ruling clique a direct line to Mr Yeltsin.

"She was persuaded to join [the election campaign] by Chubais and his colleagues in the campaign staff. They needed somebody close through whom they could most reliably exert influence on the president," said Mr Yegorov. "And she was the best candidate. They could tell her: "It would be good if daddy did . . ." And she would go and get the problem solved."

Specifically, Mr Yegorov said that the president's daughter had been instrumental in the sacking of General Alexander Korzhakov, the president's former bodyguard who is still close to the southern governor.

Mr Yegorov said Gen Korzhakov was ousted after Mrs Dyachenko, alerted by a telephone call in the middle of the night from Mr Chubais, rushed to her father and persuaded him to dismiss his bodyguard.

Yasuo Hamanaka, Sumitomo's former chief copper trader, is taken into custody after his arrest in Tokyo. Mr Hamanaka, who was dismissed in mid-June just before Sumitomo announced huge copper losses, is being held on charges of forging company letters. Report, Page 14 Reuters

Salomon suffers sharp third-quarter income fall

By Tracy Corrigan in New York

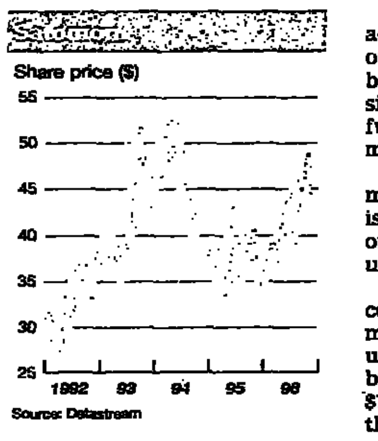
Salomon Brothers, the US investment bank, suffered a blow to its efforts to smooth out its volatile earnings performance yesterday when it reported a sharp fall in third-quarter earnings after a strong first half.

The drop suggests that Salomon's, which was the top firm in Wall Street in the 1980s, is still heavily dependent on the money it makes from trading on its own account.

The company's equity sales and trading division incurred a $26m loss in the third quarter, largely attributed to losses on equity arbitrage trading. This was one of the main factors behind a 62 per cent fall in net income from the second quarter to $112m.

After a poor 1994, Salomon's last four sets of quarterly results have been strong. The company has tried to build up its client-related business to reduce big swings in earnings, which tend to hold back its share price performance.

The slip caught the stock market by surprise. Salomon's third-quarter earnings per share of $0.85 was substantially below estimates of $1.19 per share. The earnings shortfall caused Salomon's shares to fall 7.5 per cent to $45.



Source: Datastream

But observers said that Salomon's earnings are notoriously difficult to predict because of its continuing reliance on own-account or proprietary trading. Instead of making most of its money from buying and selling securities on behalf of clients or arranging mergers and acquisitions, Salomon uses its own capital to place complex bets on market movements, similar to bets made by hedge funds with their clients' money.

Salomon's record at making money on proprietary trading is strong but big swings from one quarter to the next are not unusual.

Salomon has had some success in building up its investment banking revenues from underwriting and advisory business, which accounted for $187m in the third quarter, but this is still a small part of total revenues of nearly $2bn.

"The company's profits are still driven by the proprietary trading book," said Mr Jim Hanbury, an analyst at Schroder Wertheim. However, he added that he was not unduly worried by one poor quarter.

Other US investment banks have also seen profits slip in the third quarter after exceptionally strong first and second quarters, but the swing at Salomon has been the most

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Airlines to introduce inter-route electronic ticketing

By Scheherazade Daneshkhu and George Parker in London

An electronic revolution is set to transform the way people buy air tickets, board airplanes and clear immigration.

The International Air Transport Association, which represents airlines worldwide, will announce details later this week of standards to enable airlines to use electronic ticketing – so-called ticketless travel – between different airlines on international routes. The standards will take effect on June 1 next year.

Electronic tickets could replace paper tickets. The industry is also developing smart cards that could be used as "intelligent" tickets.

Mr Mike Müller, senior manager of passenger services at IATA, said: "By 2005, the vast majority of tickets are likely to be intelligent and the old paper tickets will gradually fade away." He said that a conventional paper ticket typically costs $8 to process compared with between $1 and $2 for an electronic ticket.

British Airways, which is experimenting with electronic ticketing on its London Gatwick to Aberdeen service, said yesterday that if there were cost savings, these could be passed on to passengers.

United Airlines, which introduced electronic ticketing on its domestic routes in the US last year, said just under 40 per cent of its domestic tickets were now issued electronically. Travellers pay by credit card over the telephone when they book, and are issued with a receipt by post or fax. They produce the credit card at the airport instead of a paper ticket.

Meanwhile, it emerged yesterday that IBM has signed a deal with Bermuda international airport to pioneer its new FastGate immigration smart card, which the company believes could eventually slash passport queues around the world.

Under the system, passengers will be able to apply to

Continued on Page 14

C&W in link-up to contest UK communications market

By Christopher Price, Raymond Snoddy and Alan Cane in London

Cable and Wireless merged its Mercury telecoms business with three leading cable companies yesterday to create a group which could be worth around £5bn ($8bn).

This will strengthen the challenge to British Telecommunications in the residential UK market.

The new company, Cable & Wireless Communications, will be the biggest cable and communications group in Britain, and aims to provide a "one-stop shop" embracing a range of services involving mobile telephones and Internet access.

C&W will have a majority stake in the company which is to be floated next year on the London and New York stock markets.

The merger between Mercury and three North American-controlled groups – Bell Cablemedia, Nynex CableComms and Videotron – is the latest consolidation in the UK cable industry, driven by disappointing sales and high construction costs.

The move follows reports last week of the collapse of talks between Telewest of the US and Nynex, formerly the two largest cable groups, and comes after more than a year of intense merger negotiations throughout the industry.

C&W Communications will have potential access to 6m homes in four large cable franchise areas in UK conurbations such as London, Manchester and Liverpool. The combined group already has cables passing 2.8m UK homes and has nearly 500,000 television subscribers out of an industry total of more than 1.6m. The three cable companies have 555,000 residential telephone lines.

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Big bang in UK cable .... Page 23

"This deal gives C&W critical mass in the residential market at a stroke," said Mr Richard Brown, chief executive of C&W who orchestrated the deal.

The consolidation comes as cable industry leaders have complained about their inability to persuade more than an average of 22 per cent of homes in cable areas to subscribe to television services.

C&W executives emphasised that yesterday's deal created a cable company large enough to have the marketing muscle which so far has been lacking.

As part of a complex three-way deal, Bell Cablemedia is to buy a 62 per cent stake in Videotron, the Canadian-controlled cable group which has been on the market for nearly a year, valuing the company at £685m.

Nynex Corp in turn will subsume Nynex CableComms, the UK's second biggest cable company in return for an 18.5 per cent stake in the new enlarged company, C&W Communications. Bell Cablemedia will also be involved, giving its Canadian parent a 14.2 per cent share. Bell Canada will sell its 5 per cent stake in Mercury for £150m.

The deal will give Mercury Communications, C&W's UK telephone subsidiary, potential direct access to the 6m homes. In the past, it has been hampered in competing with BT through lack of a "local loop", the final connection between the exchange and the residential subscriber.

BT last night welcomed the emergence of a "sensible mature market" where large players would be able to compete on equal terms. BT's share price fell 4p to 354p yesterday, while C&W's rose by 26p to 487p.

CONTENTS

EU 'risks financial war' over Target

By Gillian Tett, Economics Correspondent

The European Union risks a financial "war" if discrimination is introduced into its future single currency payments system, a senior Swiss banker warned yesterday.

Mr Jean-Pierre Roth, vice-president of the Swiss National Bank, also warned that Swiss banks could lose business if they were denied access to the payments system, known as Target.

His comments reflect growing concern in Switzerland about the EU's reluctance to offer access to Target to non-EU countries. It also highlights the deepening split between EU countries over the issue of access to non-Emu members.

"A war among financial centres within the EU is not to be ruled out," Mr Roth said, in a speech in Zurich.

France and Germany are insisting countries outside Emu should face restrictions over access to Target. But the UK has provoked deep irritation in recent weeks by strongly opposing this position.Mr Eddie George, governor of the Bank of England, yesterday reiterated his opposition to restrictions and warned that they would push up the costs of using the system for all users.

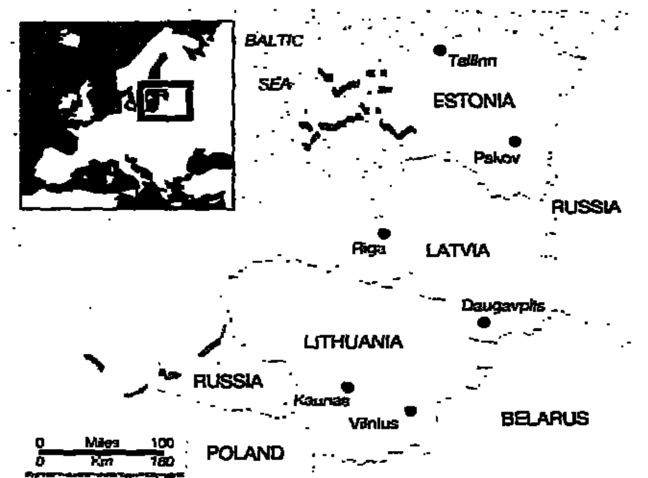
This would "encourage the use of alternative, less secure, payments arrangements" in place of Target, he said.

His remarks come amid wrangles about how the future cost policy for Target users should develop. The UK wants the cost of system to be decided by each country, to allow users to chose the most efficient option. But others want a common pricing system.

The issues are provoking particular discussion in Paris, which plans to start testing the domestic, part of a future Target system next month. Initial estimates suggest users will be charged between FFr5 ($0.98) and FFr10 per transaction for domestic payments. UK officials claim this is more than users are charged for similar transactions in the UK, albeit with a slightly different system.

A final decision on pricing policy is unlikely to emerge before an agreement is made about the terms of access for non-Emu members. Similarly, Swiss officials say they have been warned by the EU that the issue of access for non-EU countries will probably not be settled until access for non-Emu members has been decided. One European central bank official yesterday said: "This is not a priority for us – we have too many other problems." A final decision on Target is unlikely before 1998.

Mr Roth yesterday admitted that exclusion from the system could harm Swiss banks. "It is to be expected that longer-term, the number of customers wishing to settle payments in Euro in Switzerland will increase," he said. "If banks' customers cannot complete these transactions, or cannot do them in a cost-effective manner, then customers will open accounts in foreign countries."



Estonia puts its greatest faith in EU

By Tom Lynch recently in Tallinn and Matthew Kaminski in Vilnius

Estonia, a pioneer of economic and political reform in the ex-communist world, is coming to the conclusion that membership of the European Union, rather than Nato, will be the main yardstick of the west's commitment to its security.

Mr Tiit Vähi, the prime minister, stresses that membership of the EU and Nato have always been "parallel priorities." But the Baltic states have received a firm message from Washington that they are unlikely to be included in the first wave of expansion of the western alliance, scheduled for 1999.

Mr William Perry, the US defence secretary, said last month they were "not yet ready" to join. He has since said they are "fully eligible" to join in due course, but this only reinforced the impression that they have little chance of early membership.

This bitterly disappointed Estonia's leaders. But while some concede that geopolitical questions may bar them from the next wave of Nato entrants, they insist that no such excuses should stand in the way of EU membership.

They are concerned that the security-based obstacles to Nato might also be erected on the way to the EU, especially as Germany seeks to consolidate its relationship with Russia.

Germany insists that it remains "fully supportive" of expansion as soon as possible.

Mr Siim Kallas, Estonian foreign minister, argues strongly that the path to the EU should be clearer than that to Nato – the EU has promised to treat all applicant states equally, and has indicated what they need to do to qualify.

"Our people understand how complicated the way to Nato is," he says. "We will be very disappointed when we can very clearly see we have done our homework, but some countries which have a worse performance will be adopted as members of the EU for political reasons."

Estonians will keep a close eye on the progress of other leading candidates for EU membership – the Baltic state has gone through the painful process of scrapping agricultural subsidies and is aligning its institutions with EU norms.

There is likely to be particular resentment if Poland, with its unwieldy agricultural sector, is allowed in and Estonia is not.

Efforts to develop ties with Nato have not slackened – Mr Andrus Öövel, defence minister is emphatic that the country is ready for membership now.

As part of its effort to convince Nato, he says one of the principles of security policy is that Estonia should not simply be a "consumer" of security – it must help provide security for others.

He cited Estonia's contribution to the Nato-led mission in ex-Yugoslavia, next month's deployment of Estonian troops in Lebanon, the country's enthusiasm for the Partnership for Peace programme and the development of a closely interlocked Baltic military command structure with Latvia and Lithuania.

Anxious Balts queue up for Nato

By Matthew Kaminski in Vilnius

Conventional wisdom puts the Baltic countries toward the end of the Nato queue. But Mr Algirdas Brazauskas, the Lithuanian president, does not buy it. That is why he kept pressing his country's case last week in Brussels.

"Our position is that all countries that want to join Nato should have an equal opportunity to do so," Mr Brazauskas said in an interview.

"What's important is not membership as much as participation in the process. Leaving us out shows a lack of respect for the Baltic countries."

The Balts are the most vulnerable Nato aspirants – abutting Russia, and often squabbling over borders and minorities. Yet, if left out in the first round, Lithuanian officials believe the promise of an eventual defence guarantee and close co-operation with the west could fill in the vacuum.

Lithuania is already preparing for that day. Defence spending, to bring the military up to standard, will be doubled next year, and, alone among the three, Lithuania gets along fairly well with Russia and has no simmering ethnic minority problem. Mr Brazauskas believes Nato does not threaten Russia.

"I am deeply convinced that Russia should take part in stabilising eastern Europe," Mr Brazauskas said. "I support the Russian position to have a special relationship with Nato."

Lithuanian leaders desperately want both European Union and Nato membership, though they accept they have a longer road to travel to join the EU.

Lithuania has been made nervous by suggestions that Estonia should be given entry to the EU first for security reasons, an argument stated most influentially by two analysts from the Rand Corporation. Mr Brazauskas is quick to challenge such a view, reeling off economic numbers showing parity among the three countries. "If we go into the EU, we should do it all together," he said. "That's only just."

Kohl wins backing on radical tax reforms

By Peter Norman in Hanover

Chancellor Helmut Kohl's Christian Democratic Union yesterday gave overwhelming support to the party leadership's plans for a radical income tax reform from 1999 that will slash tax rates but tax capital gains from share sales.

A wide ranging motion, setting out the party's tax reform agenda, was accepted with hardly any dissent by the annual congress of the CDU.

The proposals will be incorporated into draft legislation being prepared by a government tax commission under the chairmanship of Mr Theo Waigel, the finance minister. The eventual tax bill will be one of the main planks of the German coalition government's bid for another four years in power in the next general election in autumn 1998.

The party pledged to lower the top rate of income tax from 53 per cent to around 35 per cent and the bottom rate from 25.9 per cent to "less than 20 per cent."

To produce a net tax reduction of DM30bn ($20bn) in 1999, the CDU wants the elimination of many tax privileges, including the favourable treatment of capital gains from the sale of property and securities.

Presenting the plans, Mr Wolfgang Schäuble, the CDU floor leader in the Bundestag and chairman of a party commission on tax reform, said taxes in Germany needed to be "lower, simpler and fairer".

But he admitted that the reform project was "exceptionally risky".

"Every tax break that we remove will prompt an outcry from those affected," he warned. "But if we start to wobble and start to doubt our own courage and determination and lose sight of what we want, then one of the great reforms of this century." The tax reform, he said, would be a test of Germany's capacity to cope with the changes forced by globalisation.

One banker attending the congress said the proposals on capital gains would benefit London and Luxembourg as financial centres and could damp down private investor demand for Deutsche Telekom shares when the company is part-privatised next month.

While the CDU leadership and Bonn government are setting great store by their tax reform plans, the subject failed to generate much enthusiasm among delegates, who sat through most of the speeches on the issue in silence.

Mr Waigel, addressing delegates as leader of the Christian Social party, the CDU's Bavarian sister party, was given rousing support when he tackled issues such as law and order and urged tougher jail sentences against violent criminals.

Waigel

Waigel: great applause for law and order speech

Spain acts to secure funds for Eurofighter

By David White in Madrid

The Spanish government has agreed on an interim arrangement to fund the country's participation in the next phase of the four-nation Eurofighter 2000 programme, in spite of budget constraints.

The deal covering investment for production of the combat jet comes as welcome news for industrial partners in the $60bn-plus project, currently hanging on the outcome of a budget argument in Germany over funds for Daimler-Benz's Dasa subsidiary, chief German contractor for the venture.

The Spanish arrangement, involving a special credit from the industry ministry, bypasses a squeeze on defence spending in the 1997 budget, which congress began to debate yesterday.

The loan of up to Pta25bn ($190m) for companies involved in Eurofighter production will be repayable when the air force begins to buy the aircraft.

The deal follows the Eurofighter's inaugural Spanish flight last month – a two-seat version assembled at the state-controlled aerospace company Casa. Spain has 13 per cent of the Eurofighter programme alongside Britain, Germany and Italy, and has plans to buy 87 fighters, at an estimated cost of Pta980bn, between 1997 and 2010. This is in addition to some Pta180bn already spent on the development phase.

Britain recently became the first partner to make an explicit engagement on production, committing itself in principle to 232 of the aircraft.

The Madrid government says the project will provide 22,000 direct and indirect jobs in Spain. The same short-term financing arrangement is being used for another of the country's top procurement projects, the F-100 frigate. The industry ministry is to make a Pta10bn loan to enable production to begin at the state-owned Bazán shipyard at Ferrol in the northwest on a four-warship contract.

EUROPEAN NEWS DIGEST

Bosnian poll put off again

Internationally-supervised local elections in Bosnia-Hercegovina were last night postponed for a second time amid concern about organisational difficulties and the potential for widespread fraud.

Western diplomats said the decision by the Organisation for Security and Co-operation in Europe (OSCE) would have serious implications for the successor to the Nato-led peace implementation force (Ifor).

The elections were originally to have been held with the national poll in September, but were put back until next month after allegations that voting registers were being manipulated. Mr Robert Frowick, head of the OSCE's Bosnia mission, called for the polls to take place "as soon as possible in 1997".

Western diplomats say the postponement until next year will give the OSCE time to work on an accurate register of voters. There have been reports that fraudulent personal documents are being issued to circumvent the OSCE's new regulations on where people are eligible to vote. Diplomatic efforts have now switched to securing agreement from the former warring parties to extend the OSCE's mandate to allow it to supervise the elections next year.

As the OSCE announced the postponement, the Serbs ended their boycott of the Bosnian presidency. The three-man body met yesterday for the first time since they were elected last month, at a heavily-guarded museum in Sarajevo. *Paul Wood, Belgrade*

EU court defeat for Danes

Danish shipbuilders, hit by competition from subsidised yards abroad, suffered a legal defeat yesterday when the European Court of First Instance in Luxembourg rejected their challenge to EU approval of aid to an east German shipbuilder. The appeal had been brought by the Danish Shipbuilders' Association against a European Commission decision to clear state aid to Meerestechnik Werft Wismar. *Reuter, Brussels*

Spanish shipyards lose heavily

Losses at Spain's state-owned commercial shipyards are set to overrun targets this year by as much as 85 per cent, jeopardising a viability plan agreed with trade unions a year ago. Astilleros Españoles, the state company, admitted losses were now likely to be up to Pta37bn ($285m), compared with a target of less than Pta20bn.

The rescue plan, settled after months of violent protests over job cuts, is designed to bring the yards out of the red in 1998, the last year in which they are permitted to receive state aid.

The Spanish authorities are awaiting European Commission authorisation for a fresh injection of Pta90bn to back the plan. The company has warned of the need for "drastic measures" including possibly freezing or reducing pay, and the government is not ruling out the closure of some facilities. Under the rescue scheme, the workforce at the nine yards has already been cut from over 10,000 to 8,100 and is set to shrink further to 6,100. *David White, Madrid*

Boost for Internet commerce

The broadest cross-border experiment so far in purchasing goods over the Internet is to be conducted in 16 European countries next year, involving 38 member institutions of Visa, the international credit card company. Selected cardholders will be issued with a "virtual card", consisting of a string of numbers to be stored in their own computers, and another string which amounts to a digital signature.

By means of so-called public key encryption, an approved online vendor can be assured that a purchaser is legitimate, and vice versa. Hackers cannot easily gain access to the information as it passes through other computers first.

Visa developed the system as an industry standard with MasterCard and computer groups such as IBM, Microsoft and Netscape. Mr Hans van der Velde, Visa's president for the EU region, said in Amsterdam yesterday the project would "ensure that the banks have a pre-eminent role" in electronic commerce *Gordon Cramb, Amsterdam*

Horn ready to stand down

Mr Gyula Horn, Hungary's prime minister, said yesterday he would be prepared to stand down if a younger successor was found. He said he was fed up with opposition attacks and inadequate support from the cabinet, and was no longer prepared to act as the governing Socialist party's "bullet-proof vest".

The 64-year-old prime minister, who is prone to making impromptu remarks that are later retracted, has been the Socialists' leader since their landslide victory in the 1994 general election. *Virginia Marsh, Budapest*

■ French manufacturing output rose strongly in July and August, adding to hopes of a marked third-quarter improvement in the country's economic growth rate. Figures released yesterday by Insee, the national statistics institute, showed manufacturing output up 2.9 per cent on June. Industry output excluding construction was ahead 1.9 per cent.

Higher car production was a big factor in the increases, with manufacturers raising output more than 8 per cent in anticipation of a surge of demand from car buyers before the end of a government incentive package on September 30. This puts a question mark over the durability of the upturn. However, analysts were encouraged by advances in the output of other sectors, such as semi-finished goods. The country's manufacturing output in the three months to August was down 0.3 per cent on the previous year. *David Owen, Paris*

■ German retail sales in June were down 4.4 per cent in real terms last year, giving a first-half fall of 1.3 per cent, the Federal Statistics Office said. *AFX, Frankfurt*

Meciar fires another shot

Slovak PM again assails president he wants to force from office

By Kevin Done and Vincent Boland

Mr Vladimir Meciar, Slovakia's prime minister, has renewed his attack on the country's head of state, President Michal Kovac, as doubts intensify in western capitals about the country's readiness for early membership of Nato and the European Union.

In an interview with the FT, Mr Meciar referred to what he alleged were Mr Kovac's misuse of his office and "links with criminal circles". He also compared him with Jozef Tiso, who led the Nazi-created puppet state of Slovakia from 1939 to 1944 and was executed in 1947.

His comments coincided with this month's move of the president's office to the Grassalkovich Palace in central Bratislava. The restored palace was Tiso's wartime residence.

"It is interesting that Michal Kovac is able to benefit from the history of Tiso," Mr Meciar said. "Tiso was the president of the fascist Slovak state, and he was executed. In the public opinion there exists a certain stereotype. The first one was hanged and what should we do with the second one?

"Now we simply face the question whether he should remain in that office for 18 more months or not." Mr Kovac's term of office expires in early 1998.

The president was instrumental in removing Mr Meciar's first post-independence government in March 1994, and since returning to power later that year the prime minister has appeared set on ousting the president.

His attempts to do so prompted a series of diplomatic notes from the EU and the US to the Slovak government late last year expressing "concern about possible actions against the president of the republic, which could negatively affect the development of democracy in the Slovak republic".

Mr Kovac, who referred to Mr Meciar in a recent interview in the Slovak Spectator newspaper as "a very peculiar prime minister", has firmly rejected the allegations and begun legal proceedings for libel. He has also made clear he will not stand down.

Mr Meciar, whose increasingly authoritarian style has been criticised by opposition parties, has not modified his stance despite warnings of the damage the dispute and other government actions could cause to Slovakia's early integration into western organisations.

Mr Georgios Zavvos, head of the EU delegation to Slovakia, referred to those warnings in an address to a public meeting yesterday. "The clock is ticking towards the final opinions, negotiations and decisions [on EU expansion], which will begin as soon as late 1997. Slovakia must take notice of the messages and act," he said.

See Slovakia survey

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Brussels merger plan attacked

By Robert Rice, Legal Correspondent, in Berlin

The heads of the UK and German competition authorities yesterday attacked the European Commission's proposal to increase its powers to vet European mergers.

Mr John Bridgeman, director of the UK Office of Fair Trading, said the proposal to lower the company turnover thresholds in the 1989 European merger regulation would result in a "significant centralisation of merger control" in Brussels. The Commission is proposing to lower the world-wide turnover thresholds of the companies involved from Ecu5bn ($6.2bn) to Ecu3bn, and the EU turnover threshold from Ecu250m to Ecu150m.

Mr Bridgeman warned the International Bar Association's conference in Berlin that this would roughly double the number of mergers vetted by Brussels. This would increase strain on the Commission's mergers task force and threaten the smooth operation of "one-stop" merger clearance in the European Union.

Mr Dieter Wolf, president of the Bundeskartellant, the German cartel office, said lower thresholds would "defeat the purpose of the optimum allocation of cases between national competition authorities and Brussels". The number of cases handled by Brussels had risen from 59 in 1993 to 113 in 1995 and a further rise was expected in 1996. Real growth by companies and currency fluctuations had brought about a de facto cut in thresholds, he said.

Both regulators were also critical of Brussels' proposals to decentralise competition law enforcement by passing responsibility for regulation of price-fixing and market-sharing cartels back to national competition authorities.

Mr Bridgeman said that proposal sat oddly with the plan to centralise more work on mergers in Brussels. The difference of approach might be explained by the fact that, while the administration of the merger regulation had been widely admired by European businesses, the administration of anti-competitive accords was considered less successful.

■ The European Court yesterday overturned a European Commission decision to force more competition on Channel Tunnel services when it ruled that existing agreements already allowed for other operators to compete, write John Mason and Andrew Jack.

The Commission had ruled in December 1994 that the original usage contract between Eurotunnel, British Rail and SNCF excluded competition from other operators.

The court decided the Commission had misunderstood the contract when it concluded that the rights to the tunnel were divided strictly 50-50 between the shuttle services run by Eurotunnel and the international freight and passenger services operated by the railways.

BR and SNCF did not enjoy an exclusive duopoly because Eurotunnel was free to sell its tunnel capacity to other operators, the court ruled.

Commission backs EU-wide tax regime

By Emma Tucker in Brussels

The first steps towards establishing a common EU-wide tax regime were backed by the European Commission yesterday. However, the plans are unlikely to make much impact because of opposition by member states to giving up sovereignty in fiscal affairs.

The document, which argues that the Union will not be able to complete the single market or combat unemployment without tax harmonisation, was presented alongside the Commission's general work programme for next year.

This avoided a "shopping list" of legislative proposals, concentrating instead on the Commission's broader role as guardian of the EU Treaty, overseer of the single market, and think-tank for future developments.

The two documents reflect the Commission's desire to shore up the achievements of the past years, rather than to launch ambitious legislative programmes, likely to die in the hands of sovereignty conscious member states.

Outlining the programme to the European parliament, Mr Jacques Santer, Commission president, said the essence of the programme was "reforming what does not work, and concentrating on the real priorities".

"The Commission is convinced that we must act less in order to act better," said Mr Santer. However, some sectors of industry and business are likely to be disappointed that as far as taxation is concerned, the proposals of Mr Mario Monti, the single market commissioner, do not go further. Many businesses would like to see, for example, introduction of a harmonised VAT system, but agreement between member states has proved all but impossible.

Santer: 'We must act less in order to act better'

"Mr Monti has realised he can only make fairly cautious progress," said an EU diplomat. "Most of the member states accepted his logic but are unwilling to take any action."

Mr Monti also wants to reverse the current trend of imposing an increasingly heavy tax burden on labour.

According to the Commission, between 1980 and 1994, the average rate of tax on employed labour in Europe rose from 34.7 per cent to 40.5 per cent, while that on other factors of production fell from 44.1 per cent to 35.2 per cent.

Mr Monti believes this is the result of "tax competition" between member states as they attempt to lure savings from other member states by cutting taxes on savings, while compensating with increases of tax on labour.

Although the Commission work programme steers clear of new legislation, Mr Santer was defensive about the Commission's achievements so far.

"I will not allow subsidiarity to be used as a pretext for calling Community law and forty years of shared effort back into question," he told MEPs.

Germany and France seek more flexibility

By Caroline Southey in Brussels

France and Germany yesterday formally launched joint proposals for a multi-speed Europe in which groups of countries could press ahead with greater integration without having to wait for all member states. The plans aim to allow the EU to enlarge to as many as 27 members without threatening prospects of stronger political and economic ties among more advanced countries.

The Franco-German initiative was presented as a joint contribution to a debate on flexibility due to take place next week as part of continuing talks in the intergovernmental conference to revise the Maastricht treaty.

The plans face stiff resistance from the UK government which could exercise its veto to the treaty changes in the closing stages of the IGC.

Mr Michel Barnier, French minister for EU affairs, and Mr Werner Hoyer, German secretary of state for foreign affairs, yesterday stressed that the idea was to allow greater flexibility, but within limits.

These limits included ensuring that "strengthened co-operation" took place "within and not outside the Union". This meant respecting the EU's *acquis communautaire* – the core body of EU legislation – and protecting the Commission's right to monitor laws. In addition, no member state should be allowed to veto planned action of a group of member states, and all countries willing and able to take part in any initiative should be allowed to do so.

"There are those who argue that closer co-operation might call into question what we have achieved, such as the single market. We want to dispel these concerns," Mr Barnier said. Mr Hoyer said the Franco-German initiative was aimed at attaining "greater integration, not disintegration".

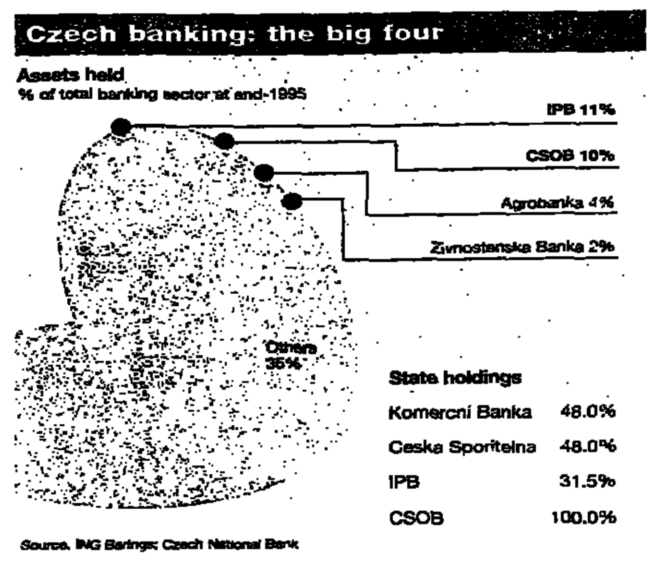
Mr Hoyer said the plans were designed to prepare the EU for the next millennium. "If things are not working with 15 member states, they are certainly not going to work any better with 20 or more members."

Czechs bank on end to financial crisis

When Nomura, the Japanese securities firm, said this week that it was interested in buying a stake in a Czech bank that might soon be offered for sale, Mr Vaclav Klaus, the Czech prime minister, described it as "unbelievably good news".

Mr Klaus rarely reacts to the sentiments of foreign investors.

His enthusiasm on this occasion, cynics suggested, was evidence not just of a *volte-face* – he had previously favoured strong domestic investors for the banks – but of his desperation to turn the tide of recent bad news from the banking sector.



Source: ING Barings; Czech National Bank

A succession of bank failures this year, which have led to a crisis of confidence in the sector, reached a peak in August with the discovery of a Kč12bn ($440m) black hole at Kreditni Banka, a small private bank. Agrobanka, another private bank, had to be rescued as a result of that failure.

The perception that fraud was involved in some of these failures – several people have been charged with financial wrongdoing in the Kreditni case – is widespread, and the government has struggled to convince an increasingly sceptical public that it is prepared to tighten up the country's turbulent financial markets.

Financial propriety has become an issue in the campaign for elections to a new senate in less than a month. Posters for Mr Klaus's Civic Democratic party (ODS), the largest in the centre-right coalition government, bear the slogan: "The concerns of decent citizens are our concerns, too."

The vote will be the first test of public opinion since June's general election, when the government lost its parliamentary majority. Since then, it has faced an uphill battle to present a united face to the electorate, with divisions emerging within the cabinet and also in the ODS. Mr Klaus has barely suppressed a very public revolt within his party over his allegedly autocratic leadership.

Mr Klaus "is running not only a minority government but a very incoherent one," notes Mr Jiri Pehe, director of research at the Open Media Research Institute, a think tank.

Nothing less than a convincing victory over the opposition Social Democrats (CSSD) in the senate election – a first-past-the-post vote for 81 seats – will do to restore his authority and convince the public that his hand is still firmly on the wheel, Mr Pehe says.

An opinion poll published this week showed the ODS slightly ahead of the CSSD, but the former has failed to widen the gap since the general election.

However not everything is gloomy for the prime minister.

He is exploiting an increasingly acrimonious row within the CSSD over insubordination by party members against its leader, Mr Milos Zeman, who is considered to have put too much emphasis on defeating the government in a recent vote on the 1997 budget.

His strategy backfired when four of his colleagues defied him to vote in favour of the measure.

Moody's Investors Service, the credit rating agency, gave a vote of confidence to the banking sector yesterday with a generally positive report on the long-term prospects for the main banks. This should boost efforts to complete privatisation of the sector when the cabinet studies the issue later this month.

Ending the banking crisis is a priority for the government.

The central bank's intervention to save Agrobanka sent a signal that the leading banks would not be allowed to fail.

Additional measures last week also made an extra Kč 13.7bn available to strengthen small banks, sparking criticism of the authorities' willingness to spend taxpayers' money cleaning up a private sector problem.

The fact that the government approved the measure – parliament must do so, too – suggests that the era of financial laissez-faire that gave rise to the banking crisis, and that has drawn criticism from the foreign investors it is eager to court, may about to end.

Vincent Boland

Netanyahu promises peace offer

By Judy Dempsey in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, yesterday promised to put forward proposals for a "definitive" peace settlement, but warned it would be different from plans drawn up by the previous labour government.

His remarks, at a joint news conference with Mr Jacques Chirac, the French president, coincided with renewed attempts by Mr Dennis Ross, the US Middle East co-ordinator, to push forward the talks for the long-delayed Israeli troop redeployment from the West Bank town of Hebron.

Mr Ross had planned to leave Israel earlier this week but was asked to postpone his departure as Israeli and Palestinian negotiators sought to iron out fundamental differences over the security of the 400 Jewish settlers living in the centre of Hebron and surrounded by 130,000 Palestinians.

Mr Netanyahu, whose conservative Likud-led coalition had opposed the Oslo accords and the 1995 Interim Israeli-Palestinian agreement granting a wide degree of autonomy to Gaza and the West Bank, said the talks over the troop redeployment were "close to an end. It is not finished yet. I hope it will end quickly."

Once there was agreement, there could be a meeting between him and with Mr Yassir Arafat, president of the Palestinian Authority. The leaders have not met since the Washington summit earlier this month.

Israeli officials have recently suggested moving quickly towards a final settlement – much earlier than the planned date of 1999. But the Palestinians, fearing any backsliding on the previous agreements, want them first to be implemented, particularly since there are at least 30 outstanding issues, including the release of political prisoners and safe passage routes between the West Bank and Gaza.

Chirac, right, with Netanyahu yesterday: clash over statehood for Palestinians Reuter

Mr Netanyahu yesterday gave the clearest indication that such an early settlement was high on his agenda, insisting "it would be different to that of the previous partners." It would, he said, achieve a fundamental balance between the interests of the parties involving the coexistence of Jews and Palestinians. However, he was reluctant to say whether such a settlement would lead to the establishment of a Palestinian state.

Mr Chirac, who was on the second day of a two-day state visit to Israel, had earlier said only a Palestinian state would bring security to Israel, remarks which were not warmly received in the Israeli press or by government officials.

But when asked about this possibility during yesterday's news conference, Mr Netanyahu turned the question around by asking if such a Palestinian state existed, "would it then have the right to form a military alliance with Syria, or buy tanks? "Of course we would say No."

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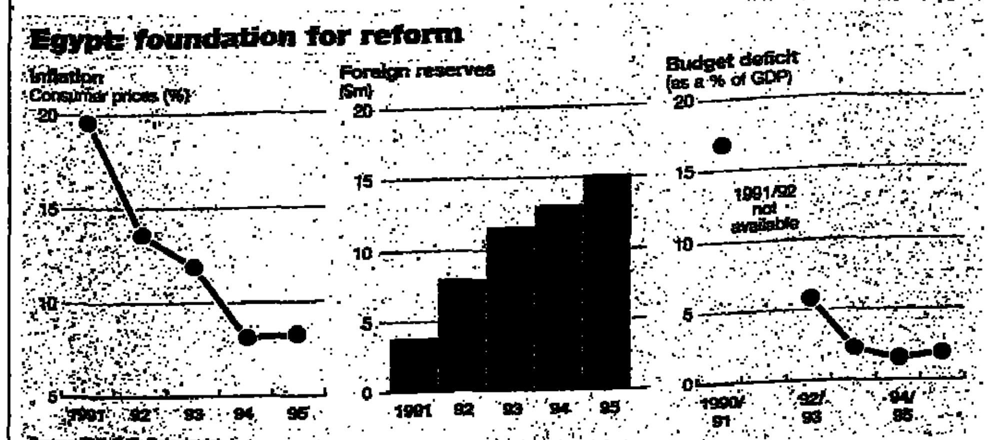
Ba2 level 'does not reflect true potential'



Source: ISD; IMF; Datastream

Egypt challenges Moody's debt rating

By Sean Evers in Cairo

Mr Youssef Boutros Ghali, the Egyptian minister of state for economic affairs, believes Egypt deserves a higher sovereign debt rating than the Ba2 recently assigned by Moody's, the credit rating agency.

"Although it is better than no rating, it does not reflect the true strength or potential of the Egyptian economy," Mr Boutros Ghali said. "I am looking forward to soon having another rating from a different agency to put this right."

Moody's Investors Service assigned a sovereign ceiling as Ba2 for long-term foreign currency bonds and notes of issuers domiciled in Egypt. It also assigned a Ba3 sovereign ceiling for ratings of long-term foreign currency-denominated bank deposits and Not Prime ceilings for short-term obligations.

Moody's said the ratings were based on the country's manageable external debt – "the result of the substantial debt relief extended by official bilateral creditors in recent years" – as well as on significant progress that has been made in improving public sector finances.

The grade places Egypt above other emerging markets such as Turkey, Brazil and Jordan, on a par with Mexico and Venezuela but below Bahrain, Israel and Tunisia.

Dr Mohammed Taymour, chairman of EFG-Hermes investment bank, said Egypt wanted "no less than Tunisia which is investment grade." He added: "I expect a higher grade from S&P when they come in the next few months to conduct a solicited rating."

However, Moody's points out that Egypt had to reschedule its external debt twice in the last 10 years while Tunisia avoided this route. In 1987 Egypt conducted a straight out rescheduling and in 1991 it restructured and received partial forgiveness of its debt which has fallen to \$31bn this year from \$52bn in 1988.

Earlier this month, the Egyptian government signed a 24-month standby credit agreement with the IMF which cleared the way for the Paris Club of creditors to write off a third and final tranche of sovereign debt worth about \$4bn agreed in principle after the 1990-91 Gulf crisis.

Mr Boutros Ghali said: "The real market value of Egypt's \$31bn external debt is actually more like \$20bn. Moody's could not grasp the strong foundation of our economic reforms and the rich diversity of our economy."

Inflation has been brought down to below 8 per cent this year from 19.7 per cent in 1991 and the budget deficit is down to about 1 per cent of gross domestic product from double digit levels in the early 1990s. The central bank holds a healthy cushion of \$18bn in foreign reserves, up from \$4bn in 1991 and economic growth is projected to reach 5 per cent this year.

> The agency 'could not grasp the strong foundation of our economic reforms'

Mr Arvind Subramanian, IMF representative in Egypt said: "To have a rating *per se* is important, because it signals Egypt's commitment to integrate itself into the world economy and willingness to abide by its rules."

Analysts believe that Egypt's sovereign debt rating was below its deserved level because Moody's had assigned an unsolicited and unpublished desk-rating of Ba3 and was then unwilling to raise it much higher even after the Egyptian government advised by Goldman Sachs and EFG-Hermes provided extensive new information for an on-the-ground study.

ILO seeks safer working for seamen

By Frances Williams in Geneva

The International Labour Organisation yesterday endorsed six new labour standards intended to improve the working conditions of the world's one million seafarers and reduce the toll of accidents at sea.

The ILO said more than 1,200 seafarers had died in shipping accidents in the last two years. In the first six months of 1996, twice as many lives were lost at sea than in the whole of 1995.

The new standards, which cover such issues as working hours, manning levels, health and safety inspections, recruitment and repatriation, aim to combat the exploitation of seafarers in an increasingly globalised industry under pressure to minimise costs.

Growing competition has forced many shipowners to re-register their ships in so-called "open" registers which tend to be more permissive on taxation, safety, manning, licensing, inspection and management, the ILO says.

A much larger proportion of crews also come from developing countries, especially from Asia.

In addition, newer vessels require fewer seamen but put more responsibility on those who remain. In 1950, a 12,000 ton oil tanker had an average crew of 40. Forty years on, a tanker 20 times as large may have only 20 men on board.

Mr Michael Hubbard of Canada, chairman of the two-week ILO conference, said yesterday that about 80 per cent of all shipping losses and casualties were due to human error. This in turn was often the result of fatigue from long working hours and excessive pressure on crews.

The new standards would go a long way to reduce the fatigue factor, he said. Regularising hours of work and rest would prevent shipowners from reducing manning levels to the point where seamen could no longer do their jobs properly.

The revised convention on hours of work and manning specifies a normal working day of eight hours with one day of rest a week and a maximum working limit of 14 hours a day and 72 hours a week. An accompanying non-binding recommendation sets a minimum wage for able seamen at \$435 a month from January next year, a figure which serves as a benchmark for the industry.

Though ILO conventions are only binding on nations that ratify them, a 1976 convention on minimum standards for merchant shipping allows member states to inspect and require any foreign ship entering their ports to comply with basic norms.

The ILO conference yesterday expanded the scope of port-state inspections to include the new convention on working hours and manning, as well as arrangements for the repatriation of seafarers.

Polls offer Dole little comfort

By Jurek Martin in Washington

The most recent US opinion polls continue to offer no comfort to Mr Bob Dole, the Republican presidential candidate, with two weeks to go before election day.

They also reveal a public largely uninterested or unimpressed with his persistent attacks on the ethical standards of President Bill Clinton and the Democrats, including the issue of campaign contributions from foreign sources.

Four polls give the president leads ranging from 15 to 22 points. It would be unprecedented for a candidate to overcome such a deficit so late in a campaign.

A New York Times/CBS survey gives Mr Clinton 55 per cent, Mr Dole 33 per cent and Mr Ross Perot of the Reform party 5 per cent. That represents a 5-point gain for the president since the previous poll, taken before last week's televised debate in San Diego.

It found that only 42 per cent claimed to be familiar with the controversy over foreign campaign donations and only 20 per cent thought it a "serious issue". Another 45 per cent felt it constituted "politics as usual".

Mr Dole's trustworthiness, to which he constantly refers, is now ranked no higher than Mr Clinton's, dropping 7 points over the last two weeks. Mr Clinton's conduct in office was deemed no worse than that of his predecessors.

The message from other polls was similar. A Harris poll gave Mr Clinton 54 per cent, Mr Dole 38 per cent and Mr Perot 7 per cent.

Two "tracking" polls, updated several times a week and therefore more volatile, were similarly discouraging for the Republican cause. A CNN/USA Today survey, conduced by Gallup, gave the president 55 per cent, Mr Dole 34 per cent and Mr Perot 6 per cent, while the split in an ABC News version was 53-38-5.

The Dole campaign tried to put the best face on the polling numbers. Mr Nelson Warfield, his press secretary, caustically observed that perhaps the CBS/Times poll had "oversampled Indonesian billionaires", a reference to Democratic campaign donations said to have been received from that country's Lippo conglomerate.

Campaigning in Michigan, Mr Dole appeared to be switching his message back to his tax-cutting economic plan. Of the polls, he said: "They go up and down, they can't all be right and they can't all be wrong. Probably some are in the middle."

Dole: putting on brave face

Nicaragua land claims likely to widen the political divide

Johanna Tuckman on the repercussions of an expected rightwing win

Nicaragua's presidential election on Sunday marked a return to bipolar politics in a country that has been run for six years by a fractious centrist coalition.

Mr Arnoldo Alemán of the rightwing Liberal Alliance was expected to be declared victor yesterday, after securing about 48 per cent of the vote against 39 per cent for the Sandinistas' Mr Daniel Ortega, a former president. Mr Alemán, who needed 45 per cent of the vote to avoid a run-off election, is expected to take office on January 10 for a five-year term.

Mr Ortega was still demanding a probe into alleged irregularities and had not ceded defeat yesterday morning. However, independent observers pronounced the elections free and fair.

The Liberal Alliance also emerged as the largest single party in the National Assembly, although without an absolute majority. Most of the smaller parties that played an important role during the previous government have been pushed out.

Mr Ortega could take comfort from having avoided the electoral humiliation predicted a few months ago, and proving that the Sandinistas are far from a spent political force. According to Mr Oscar René Vargas, a political analyst: "Ortega, like Felipe González for the Spanish Socialists, was the best option to lose with... He kept the Sandinista vote together and reduced the size of defeat."

The self-proclaimed victor of the contest called on Sandinistas to join him in "bringing progress and change without violence to Nicaragua", but many fear a campaign against them.

"Alemán has a confrontational style and there will be social, political and moral conflict," said Mr Vargas, who added that Mr Alemán was virulently anti-Sandinista when he was mayor of Managua.

Ms Miriam Argüello of the Popular Conservative Alliance, one of the losing 21 presidential candidates, said: "I don't know if there will be confrontation, the future will tell its own story. But what I do know is that the country has been completely polarised by the vote."

According to Mr Carlos Fernando Chamorro, another political analyst, Mr Alemán's stint as mayor of the capital in the early 1990s still left him "an enigma in many areas".

One of the most potentially explosive issues on the new agenda is Mr Alemán's election promise to satisfy all those whose property was confiscated during the Sandinista years. This will require reform of painfully negotiated compromises which resulted in new property legislation last December.

Although Mr Alemán has emphasised the Sandinista hierarchy that took personal advantage of property commandeered by the revolution, many small beneficiaries of the redistribution fear they will also be affected.

Mr José Ibarra, who lives in a Managua urban settlement founded in 1982, said: "Arnoldo says he will give us titles but he has an unstable temperament you can't trust... but Daniel will help us defend our rights."

Meanwhile, Mr Alemán's confidence that he can persuade the international community to "buy peace in Nicaragua" with $400m in property compensation cash has been greeted with scepticism.

Mr José Evenor Taboada, president of the central bank, commented: "It is impossible. He will not even get $4m."

Beyond the property issue, the Liberal Alliance is predisposed to follow the lead of the IMF-inspired structural adjustment programme. This policy is credited with stabilising runaway inflation and laying the foundations for three years of economic growth.

But with unemployment and underemployment of more than 50 per cent, the big issue is jobs.

Mr Alemán's main economic adviser, Mr Noel Ramírez, is a likely candidate to take over from Mr Taboada at the central bank. He favours a tight check on public spending as well as private investment as the motor for job creation.

Although the main business organisations voiced a preference for the Liberal Alliance just before the elections, the local private sector is not completely comfortable with Mr Alemán.

One reason is that his close ties with the Cuban community in Miami worry some local business families who fear they will be deprived of old privileges and lose out on new ones.

Cuba recovery hopes hit hard by hurricane

By Pascal Fletcher in Havana

Cuba yesterday said Hurricane Lili, which battered eight of the island's 14 provinces last week, had dealt a blow to economic recovery efforts by damaging food production, export crops and housing.

"The effects are serious," Mr Ibrahim Ferradaz, foreign investment minister, said after briefing diplomats on the effects of the hurricane, the worst to hit the island in recent years.

He said the damage was compounded by the fact that Cuba was still struggling to emerge from five years of severe recession, triggered by the collapse of trade and aid ties with the former Soviet bloc. The island is already facing a balance of payments squeeze caused largely by rising costs of essential imports.

A preliminary damage report handed to foreign ambassadors said Lili had "wiped out" most farm crops in eight provinces. More than 21,500 hectares of bananas, a food staple for Cubans, were destroyed and more than 36,000 hectares of other crops damaged. Upwards of 656,000 hectares of sugar cane, the main export crop, were affected.

More than 78,000 houses were damaged, 5,640 of them destroyed. Sugar mills, factories, schools and hospitals were also hit, as were water distribution and electricity networks.

Mr Ferradaz said the national economic plan for 1997 would have to be revised to take account of the damage.

On Monday, Mr Roberto Robaina, foreign minister, said the hurricane damage was a "national tragedy". He asked the United Nations to provide humanitarian assistance, specifically food, medicines, construction materials and farming equipment.

The minister said the pace of Cuba's economic recovery would inevitably be affected.

Mr Nelson Torres, sugar minister, told Cuban radio that although large areas of sugar cane had been blown flat or flooded, he believed the island would be able to increase sugar production in the coming season above the improved 4.45m tonnes harvest achieved in 1995/96.

Damage to tourism installations was minimal, Mr Ferradaz said.

AMERICAN NEWS DIGEST

Output gains in Argentina

Argentina's industrial production in the third quarter was 9.8 per cent above that of the same period last year, marking the second quarter of year-on-year growth after four periods of deep recession.

The monthly survey from FIEL, the respected economic think-tank, indicated the economy was accelerating out of recession, with most businesses predicting increased output in the final quarter.

"The recovery is fairly evident, although one must remember it is being measured against the very low levels of last year," said Mr Osvaldo Kacef, an economist linked with the Unión Industrial Argentina, which represents the country's large manufacturers. "It was surprising that the recovery was not interrupted by the change of minister," Mr Kacef said, referring to the sacking in July of Mr Domingo Cavallo, former economy minister.

However, production in September fell 3.7 per cent from the previous month, partly because of a 48-hour general strike that halted much industrial activity, according to FIEL. Demand also dropped back slightly in September, mainly as a result of a harsh austerity package announced by Mr Roque Fernández, the new economy minister, in August.

Most independent analysts predict growth in gross domestic product of 2-3 per cent in 1996, following last year's contraction of 4.4 per cent. Mr Fernández revised downwards to 4 per cent his predecessor's estimate of 5 per cent growth for this year. *David Pilling, Buenos Aires*

Union accuses Bridgestone

The United Steelworkers of America yesterday stepped up its campaign against Bridgestone/Firestone, the Japan-based tyremaker, claiming it had abused US workers and environmental and health standards. It called for a "Don't Buy" campaign against the company.

A union report accused Bridgestone of double standards by never laying off Japanese employees but illegally replacing striking workers at its US Firestone subsidiary. The union's campaign has been mounted internationally, a growing practice as labour seeks to confront the power of multinationals.

Mr Trevor Hoskins, Bridgestone spokesman, said that "if the USWA leadership wishes to continue squandering member funds with a very expensive campaign based on untruthfulness that is certainly its privilege". If the campaign succeeded in hitting production, the union's members would be among the first people affected, he added.

The company's labour difficulties began in 1994 when it asked for extensive concessions from US workers, provoking a bitter strike. *Nancy Dunne, Washington*

Caracas jail riot kills 30

A riot and fire which erupted at a jail in Caracas yesterday left more than 30 inmates dead, Venezuela's justice ministry said.

Mr Antonio Malval, the ministry's director of prisons, said that shortly after an early morning roll call at the prison, which houses 1,700 inmates, there was a disturbance in a cell block. The National Guard fired tear gas to disperse the inmates and a fire broke out. The jail, located in the city's El Paraiso neighbourhood, was only built for 1,000 inmates, Mr Malval said. *AP, Caracas*

NEWS: ASIA-PACIFIC

Rs40bn budget package aimed at ending uncertainty over foreign debt

Pakistan woos IMF with 8% devaluation

By Peter Montagnon and Farhan Bokhari in Karachi

Pakistan yesterday devalued the rupee by nearly 8 per cent against the US dollar and announced a Rs40bn ($995m) budget package designed to repair its relations with the International Monetary Fund and end uncertainty over its ability to service its $28bn foreign debt.

Mr Muhammad Yaqub, State Bank governor, said the package, which also includes a 3 percentage point rise to 20 per cent in the central bank's discount rate, should enable Pakistan to resume drawings on its International Monetary Fund credit by late November. An IMF mission is due here at the end of the week.

"These measures are designed to restore national and international confidence," he said. But they met a cautious initial reaction from the local financial community which had been expecting a smaller devaluation. Share prices rose 2 per cent, but dealers said trading volume was only average. In the unofficial foreign exchange market, the dollar traded at Rs42.60, well above its new central rate of Rs40.22.

The devaluation also met a negative response from business and opposition leaders. "They are skinning the nation," said Mr Ilyas Ahmad Bilour, head of the Federation of Pakistan Chambers of Commerce and Industry and an opposition senator.

Nonetheless, most bankers agreed tough measures had become inevitable. Concern had been mounting over the slide in Pakistan's foreign exchange reserves, now officially put at $761m, worth about four weeks of imports.

Under the package, a tax is to be levied by Pakistan's four provinces on the previously exempt farm sector. The proceeds of Rs2bn in the first year will replace transfers from central government. Defence spending, which takes up a quarter of government expenditure, is not being cut directly, but it will fall in real terms because the armed forces will not be compensated for the effect of devaluation on their equipment imports.

Spending is to be reduced by Rs27bn, mostly through cuts in "non-core" development spending. Revenues are to rise by Rs13bn through additional service charges to importers and on foreign travel. To compensate, the government is to exempt medicines and newspapers from the unpopular general sales tax.

The State Bank also introduced a temporary 17 per cent interest rate on foreign currency deposits channelled to it through commercial banks. This should attract a fresh inflow of currency to replenish the reserves, Mr Yaqub said.

Credit to public sector corporations will be restricted and legislation is planned to facilitate the recovery of overdue loans by state banks through attachment of collateral. Bad debts in the banking system amount to Rs120bn, equivalent to about 6 per cent of gross domestic product and a large drag on government finances.

Bankers expressed concern about the ability of the government to push through the package. They said a striking feature of yesterday's announcement was that it came from Mr Yaqub, rather than the finance ministry in Islamabad.

Mr Yaqub led last week's delegation to the IMF in Washington, a role normally filled by Mr V.A. Jafarey, the premier's economic adviser. Mr Jafarey is known to have annoyed IMF officials in the past by failing to live up to commitments made in negotiations.

A Karachi money changer adjusts foreign currency rates after the devaluation yesterday *Reuter*

Indian banks under pressure on rates

By Quentin Peel and Tony Tassell in Bombay

Indian banks are coming under mounting pressure to cut interest rates quickly and step up lending activity following an easing in monetary policy at the weekend.

The Reserve Bank of India, the central bank, announced a broad package of measures over the weekend aimed at reviving economic growth through freeing bank resources for lending and reducing the cost of credit.

The move brought widespread cheer to Indian financial markets yesterday.

After a public holiday on Monday, the BSE 30 Index, the country's most prominent share market indicator, rose 98.75 points to 3,228.75 with bank stocks leading the rally.

Mr C.Rangarajan, RBI governor, told the Financial Times he expected Indian banks to pass on quickly the benefits of the measures.

In addition, the finance ministry has called a meeting with leading banks on November 8 and 9 to discuss bank lending policies.

Already two state-owned

Markets are cheered by moves to revive economic growth

Indian banks have cut their benchmark prime lending rates by 0.5-1 percentage point.

Others, including the country's largest commercial bank, the State Bank of India, are expected to make a decision on rate cuts over the next few days.

The moves will bring widespread relief to Indian businesses, many of which are paying interest at more than 20 per cent even though inflation is running at around 6.45 per cent. Although bank prime rates currently range from 14.5 to 18 per cent, only a few companies can raise funds at this level.

Analysts also said the move might help spur a recovery in bank credit growth after a slump in the first half of current fiscal year to March.

Ms Nupur Joshi, economist with Jardine Fleming India, the brokers, said outstanding bank credit actually fell by Rs31bn ($869m) between March 29 and September 27. This was mainly because of a fall in demand, with many corporates delaying decisions to take up credit because of high interest rates.

Some analysts suggest the slowdown in credit growth was partly caused by bureaucratic delays by banks in processing loan applications. One banking industry source said bank delays had choked the system.

Mr Rangarajan said another reason why bank credit had not risen as strongly as expected after an earlier easing of monetary policy six months ago was that banks had chosen to repay more than Rs131bn in "expensive" borrowings from the RBI instead of lending these funds.

With these borrowings repaid, he indicated that the latest easing of policy would have a more pronounced impact.

Mr Rangarajan also allayed concerns that increased government borrowings might soak up the increased liquidity arising from the changes.

About 80 per cent of the government's budgeted gross market borrowing for 1996-97 had already been completed, and there was no indication of an increase beyond the targeted limits.

"The pressure on the system will be much less in the second-half of the year," he said.

Inflation was expected to remain under control at 6-7 per cent in 1996-97 despite the impact of the easier monetary policy.

Money supply growth should be about 15.5 per cent for 1996-97. As such, inflation should remain within the forecast range, given an expected gross domestic product growth of around 6.5 per cent for 1996-97.

Mahathir plea for information curbs

By James Kynge in Kuala Lumpur

Dr Mahathir Mohamad, Malaysia's prime minister, placed fresh emphasis yesterday on the need to restrict information, in remarks which appeared to be at odds with a national drive to win investment from western media companies.

Dr Mahathir said the rapid advance of technology had rendered traditional government controls impotent. He appealed to broadcasters and journalists to practise self-censorship to shield the public from foreign propaganda, deviationist teachings, pornography and other undesirables.

"What is happening is that advanced telecommunications technology is moving too fast for governments to make laws, policies or mechanisms to control it," Dr Mahathir said as he opened the new operations centre of a local television station.

Censors in broadcasting centres had the responsibility not only to censor unwanted material but also to choose programmes that could help promote good behaviour.

The prime minister's fresh emphasis on information controls contrasts with remarks he made in August at the launch of a national project to attract investors to a "multimedia super corridor" near Kuala Lumpur.

He said then that there would be no censorship within the corridor, a 750 sq km zone intended to serve as a base for world-class media and information technology companies.

Malaysian executive faces court charges

By James Kynge

The boss of a Malaysian gaming company, Repco Holdings, has been charged in court with giving a misleading statement likely to influence trading in the company's shares, officials said yesterday.

The court action, being brought by the Securities Commission, is an indication of Malaysia's determination to combat excessive speculation and other abuses as it liberalises its financial markets.

Mr Choo Chin Thye, chief executive of Repco, was charged in a Kuala Lumpur court under two sections of the Securities Industry Act of 1983. He pleaded not guilty and was allowed bail until his trial next February.

The Securities Commission case involves a profit forecast which Repco made on January 27 this year. The company forecast a pre-tax profit of M$29.13m ($11.6m) for its 1996 year and a pre-tax profit of M$107.48m for its 1997 financial year. A week later, however, it withdrew the forecast, citing premature assumptions related to the prospects of its gaming business. It then published a new pre-tax profit projection for the 1997 year of M$80.82m.

Repco is listed on the Kuala Lumpur Stock Exchange's second board. The company's share fell 6.4 per cent yesterday to end at M$80.5, down from a high this year of M$97.7. If found guilty, Mr Choo faces a minimum fine of M$1m and may be jailed for up to 10 years.

Beijing smiles again on Germany

By Sophie Roell in Beijing

China Daily, official newspaper of the Beijing government, yesterday hailed the restoration of "normal, healthy" relations with Germany after "months of controversy". Diplomatic analysts saw it as a positive signal that China's anger over a resolution on Tibet, passed in the German parliament in June, had cooled.

Sino-German relations appeared firmly back on track as Mr Klaus Kinkel, the German foreign minister, finished two days of talks in Beijing aimed at clearing up the damage and paving the way for a visit by President Roman Herzog next month.

China was also conciliatory about Mr Kinkel's decision to bring up in discussions the cases of a number of dissidents, including Mr Wang Dan, the detained student leader. The foreign ministry said China was willing to discuss human rights issues provided this was done in a non-confrontational manner and "based on mutual respect and equality".

The first visit to China by Mr Herzog, scheduled for the end of next month, is an indication of the weight Bonn is also placing on strengthening Sino-German relations.

Germany is China's biggest European trading partner, with bilateral trade in 1996 expected to reach DM29bn ($19.5bn), up from DM26.6bn last year. However it has elicited envy among companies from some other countries who argue that a cosy political relationship between Bonn and Beijing has helped German companies win contracts.

German companies appeared relieved that the dispute over Tibet appeared to have blown over. The representative of one semi-official organisation involved in promotion of bilateral trade said he knew of no contracts which had been lost directly as a result of the row, but that German companies were "very concerned about the negative impact on the business climate".

The Chinese government had made indirect warnings of the potential "consequences" for German business if Bonn failed to make amends.

Other German industry representatives tried to play down the disagreement. A Volkswagen representative said the row had had "absolutely no effect" on the company's Chinese operations.

Mr Wang Jiang Bing of Roland Berger, the management consultants, said small to medium-sized projects which make up the bulk of German investment in China, were relatively unaffected by political manoeuvres.

Nevertheless large headline projects were likely to feel the "negative effects" of ups and downs in political relations.

Mr Kinkel had been scheduled to visit China in July, but Beijing withdrew the invitation after the row over Tibet.

ASIA-PACIFIC NEWS DIGEST

Tung unveils plans for HK

Mr Tung Chee-hwa, the Hong Kong shipping tycoon, yesterday launched the platform on which he hopes to head the territory's administration after its return to Chinese sovereignty next year, with an emphasis on business issues and a warning about competitiveness. "Years of inflation have eroded our purchasing power and raised our cost of doing business," he said. "Hong Kong's competitors are becoming more focused, improving their capabilities and targeting areas where the colony has traditionally been strong," he added, citing Taiwan and Singapore as rivals.

Mr Tung, who is seen as a front-runner in the contest for chief executive, and who has substantial backing from China, steered clear of most sensitive issues. But he did stress the need for co-operation with the provisional legislature Beijing intends to install in place of the territory's elected body. Mr Tung, who has stepped down as chairman of Orient Overseas to mount his campaign, said Hong Kong had to be kept free of "corruption and croneyism". *John Ridding, Hong Kong*

Japan diffusion index dips

Japan's diffusion index of leading indicators, a wide gauge of economic activity, fell to 33.3 per cent in August, the first dip in five months below the 50 per cent line between growth and decline. Compared with the previous three months, five indices worsened: inventories/shipments ratios of finished goods and raw materials; new job offers; real private machinery orders; the Nikkei commodity price index; and new car registrations. The coincident index of economic indicators fell further to 30 per cent, the first time below 50 per cent in three months, and the lowest since September last year.

Five of the indices changed to negative in August: industrial production; raw materials consumption; plant-operating ratio; large-lot use of electricity; and sales at small and medium-sized companies. Three stayed on the plus side, while two remained negative. "But basically, the trend is upward. The three-month moving average for the diffusion index has stayed over 50 per cent for almost a year," Mr Peter Morgan, senior economist with James Capel Pacific, said. *Gwen Robinson, Tokyo*

BJP faction set to govern

A breakaway faction of the Bharatiya Janata party appears set to form an administration in the Indian state of Gujarat, formerly governed by the Hindu nationalist party proper, after the Delhi government yesterday revoked a month-old order of central rule.

Delhi suspended the former 19-month BJP regime after a bitter internal party split culminated in violent scenes in the state's 181-seat assembly. Mr Shankarsinh Vaghela, leader of the breakaway group, was yesterday elected head of his newly-formed Mahagujarat Janata party, claiming its 52 MPs would form a government with the support of 45 Congress members, previously in the opposition. *Mark Nicholson, New Delhi*

Daewoo chief summoned

The chairman of South Korea's Daewoo Group was summoned by Seoul prosecutors yesterday in connection with an arms scandal said to involve a former defence minister, a Daewoo spokesman said. Mr Yoon Young-suk, who is also chief executive officer of Daewoo Heavy Industries, had returned from an overseas business trip, the spokesman added, emphatically denying any wrongdoing by the company, one of South Korea's leading business conglomerates.

South Korea's main opposition party has alleged an arms dealer was paid Won300m ($362,000) by Daewoo Heavy Industries last year to arrange a government purchase of military helicopters. *Reuter, Seoul*

Sri Lanka reverses sell-offs

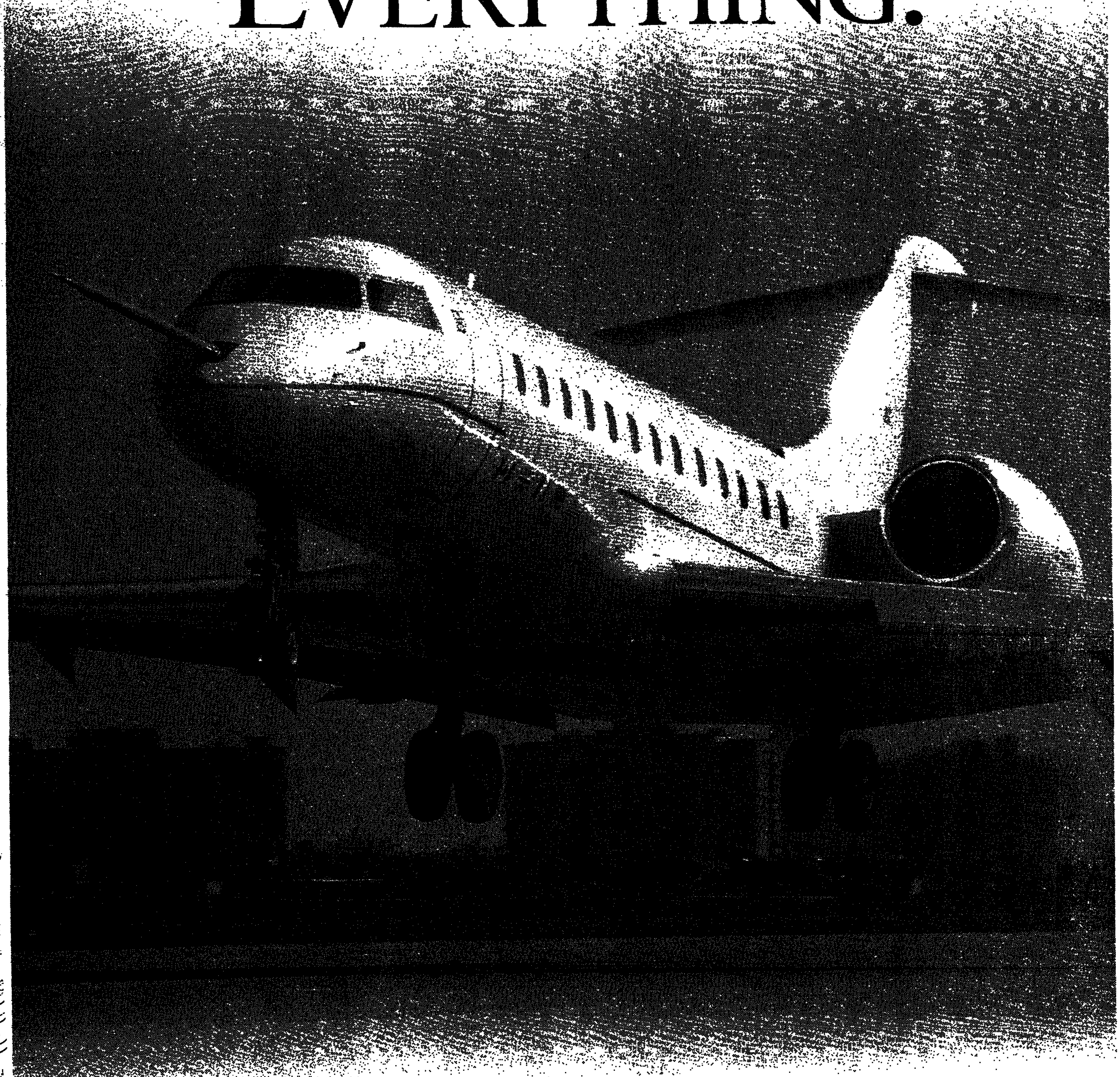
Sri Lanka's parliament yesterday passed legislation re-acquiring state enterprises privatised by the previous government voted out two years ago. Members voted 99-75 to clear the way for the nationalising at least six companies sold off by the United National party. Two senior ministers, Mr M H Ashraff of the Sri Lanka Moslem Congress and Mrs Srimani Athulathmudali of the Democratic United National Front, stayed away as the vote was taken.

The two groups are part of the governing People's Alliance coalition which has a one-seat majority in the 225-member national assembly. Withdrawal of either is unlikely to bring the government down, but will push President Chandrika Kumaratunga to seek support from minority Tamil parties. *Amal Jayasinghe, Colombo*

Ramos keeps promise

President Fidel Ramos yesterday named Mr Nur Misuari, head of the Moro National Liberation Front, as chairman of a council overseeing economic development in the southern Philippines, fulfilling a promise made in a peace pact with the front. As chairman of the Southern Philippine Council for Peace and Development, Mr Misuari will control development projects in 14 provinces and nine cities on Mindanao Island. *Reuter, Manila*

This Changes Everything.



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WTO praises reforms in NZ

By Frances Williams in Geneva

New Zealand was yesterday held up by fellow members of the World Trade Organisation as a shining example of trade and economic liberalisation for others to follow.

In a highly complimentary report on New Zealand's trade policies and practices, which was endorsed by trading partners yesterday, the WTO secretariat said the country's bold economic reforms had begun to pay "substantial dividends".

"Trade liberalisation, privatisation and domestic deregulation have transformed New Zealand's economy from one of the most heavily protected and regulated into one of the most market-oriented and open in the world," the WTO said.

Since the reforms began in the mid-1980s, New Zealand had halved unemployment to 6 per cent, cut annual inflation from around 15 per cent to 2 per cent and turned a budget deficit equivalent to 9 per cent of gross domestic product into a fiscal surplus.

The report noted that economic growth had averaged 4 per cent since 1993, adding that the reforms were estimated to have increased New Zealand's growth potential by about 1 per cent a year.

Subsidies to the agricultural sector, which accounts directly and indirectly for a big chunk of New Zealand's exports, have been slashed from 3.8 per cent of GDP in 1984 to 0.1 per cent in 1994. Support for farmers is the lowest in any OECD country.

However, in one of the few notes of criticism, the WTO report said much of New Zealand's agricultural exports were still subject to licensing controls operated by statutory marketing boards, some with monopoly powers.

The economy would benefit from easing or eliminating these marketing restrictions and from removing remaining tariffs, according to the WTO secretariat.

Road to Vietnam still bumpy ride

By Jeremy Grant in Hanoi

Foreign investors hoping for an easier ride in Vietnam, where legal potholes are many and success stories few, are likely to be in for a disappointment.

For months, Vietnamese officials have hinted at radical changes to be made to the four-year-old foreign investment law that would cut red tape and clarify confusion over mortgages and land use rights. The country urgently needs to reverse declining investment figures. Pledges amount to $21bn but commitments this year are expected to be $6.5bn, down from $7.5bn last year. Economists estimate only about a quarter of total commitments has been disbursed.

Significant changes, however, are not on the agenda, according to lawyers who have seen the final draft of a revised foreign investment law, expected to be passed soon by the National Assembly. Final drafts usually make it on to the statute book unaltered in Vietnam.

Officials have watered down earlier drafts that included some encouraging changes, the lawyers say. "What they have given with the left hand they have taken away with the right," said one.

Instead, Hanoi will probably only tinker with the law. For example, it is expected to ban wholly-owned foreign projects in power generation, the manufacture of telecommunications equipment, and in airports and ports. But very few investors are likely to consider such investments anyway.

Also, all foreign projects will have to be insured with Vietnamese insurance companies. This is unlikely to cause problems as the risk will automatically be reinsured offshore, lawyers say.

Wholly-owned ventures in insurance, banned in earlier drafts, will be allowed.

Observers say the main reason for the apparent dilution of early proposals is reluctance by officials to give concessions to foreign investors at a time of creeping political conservatism and lingering doubt about the role of foreign investment in the communist-run country.

Conservative figures, particularly from the defence and internal security forces, gained ground at the Communist party's five-yearly congress in late June. They have spearheaded criticism of the perceived dominance of foreign over local businessmen. Many Vietnamese businessmen, too, are sensitive about the inability of their cash-strapped companies to contribute much equity to foreign joint ventures. Most joint ventures are split 70/30 in favour of the foreign side.

Local newspapers cover the issue regularly almost as a point of national pride. "Why should we always be satisfied with a stake of 30 per cent or less in joint ventures' capital. . . . without joining capital together to make up a governing stake of 51 per cent?" asked Mr Tran Du Lich, a National Assembly deputy from Ho Chi Minh City, in the Saigon Times Daily.

However, some observers point out that changes to the foreign investment law are less important than a thorough overhaul of the environment in which they are implemented. Part of the problem is Vietnam's enthusiasm for lawmaking. An average of between 30 and 40 laws and decrees are issued weekly by ministries, the central bank and the government.

The effect of this often overlapping legislation is confusion and repeated disruption to business plans. "You can tinker around with the law as much as you like but what people are crying out for is more consistency," said a second foreign lawyer.

Ukraine flexes its arms muscles

Kiev is courting new clients in crowded weapons market, writes Matthew Kaminski

The Soviet war machine used to keep two out of five Ukrainian factories busy. Now Ukraine's nearly bankrupt military industrial complex, the second biggest in the former Soviet Union, is courting new clients in an already crowded world arms market.

The latest United Nations arms registry shows Ukrainian arms exports are on the rise, reversing the decline of the past four years. "Ukraine is moving into the big time," says Ms Natalie Goldring of the British-American Security Information Council in Washington.

Other former Warsaw Pact members have made similar forays into the market. Russia re-emerged in 1995 as an important global weapons supplier, its share jumping from 4 per cent to 17 in a year.

Ukraine would like to follow. It inherited a third of all Soviet military plants, but its recent sales drive did not come to notice until late July when Pakistan bought 320 T-80UD tanks for $580m – the largest deal Ukraine had ever struck.

It remains unclear, however whether the country is really emerging as an arms supplier in the same league as Israel or South Africa, considered second-tier exporters after the US, Britain and Russia. Its main products are tanks, transport aircraft, ships, and missiles and missile guidance technology. These are all areas where competition is fierce.

Ukraine's need to revive its arms industry

Export deliveries of conventional weapons*

Trend-indicator values expressed in $m at constant 1990 prices**	1992	1993	1994	1995
Russia	2,841	3,631	962	3,905
Czechoslovakia***	213	267	371	326
Poland	nil	1	117	201
Ukraine	416	129	107	74

* Excludes small arms, ammunition, light artillery & non-lethal military equipment
** Figures are not real flows of money but are based on the Sipri index used to aggregate data for comparison of trends between countries over several years
*** 1992 refers to former Czechoslovakia, 1993-95 to Czech Republic
Source: Sipri Yearbook 1996

Ukraine can still break in, believes an analyst in Kiev. "It's got a captive market for spare parts in the former Soviet Union and the Third World. They're very price competitive, too."

Although former client states in Africa are not buying much, Asia remains a good customer. Ukraine last year sold four An-32 military transport aircraft, made at the huge Antonov plant near Kiev, to Sri Lanka, and 300 ten-ton trucks to India. The previous year it shipped 56 air-to-air missiles to China and performed well in munitions, according to the 1995 UN Register of Conventional Arms. One analyst put total exports at $100m last year.

Possibly its greatest strength lies in its missile and missile guidance facilities at Kharkiv and Dnepropetrovsk, both industrial cities in the east, which are considered among the best in the world. The government also insists it is strengthening its legal base to fulfil all international obligations on the export of missile technology.

Conversion of military plants has been only partly successful. Shipbuilding and chemical plants have a future in a free market and 80 per cent of production at Yuzhmash in Dnepropetrovsk, the world's largest missile factory, has a peaceful application. For instance, it is providing rockets for Sea Launch, a new commercial satellite launch venture that brings together Ukrainian, Russian, Norwegian and US companies.

However, Ukraine's weak economy – and the lack of attention paid to restructuring its big industrial companies – both drives and hinders its promotion efforts in the world's arms markets. "Arms sales are a good way out for bankrupt companies," says Mr Digby Waller, defence economist at the International Institute for Strategic Studies in London. He considers Ukraine's large Pakistani deal as atypical. "I wouldn't expect them to maintain that presence."

To succeed in the long term Ukraine must overcome several challenges: for example, the strained relationship between lead contractors and sub-contractors, now that the latter are spread across the 15 new countries created when the Soviet Union collapsed.

As far as the Pakistani deal was concerned, says a diplomat, the Ukrainian government felt confident that it could provide the necessary sovereign guarantee because many of the tanks had already been built.

The rest of the order is to be filled over the next four years. The Kiev government is now negotiating with Russian sub-contractors which provide electronics and sights for the T-80UD.

Other producers have sought formal alliances. The latest model of Antonov transport aircraft, the An-70, is being developed jointly by Ukraine, Russia and Uzbekistan. But these countries are inexperienced in creating industrial consortia.

Another formidable challenge is to improve marketing and service. Ukraine's two arms trading agencies, UkrinMash and Progress, are regarded by some in the arms trade world as incompetent. "So much kit is lying around" that exports should be much higher, says the analyst in Kiev. "There's too much stealing going on", even though "they've greatly improved their export control techniques."

WORLD TRADE NEWS DIGEST

Mexico presses cement dispute

Mexico has warned that it may challenge US anti-dumping action on its cement in the World Trade Organisation. The warning came after the US again blocked adoption of a 1992 report by the anti-dumping committee of the WTO's predecessor body, Gatt, that the US broke fair trade rules in imposing the duties.

The panel said the US should return all anti-dumping duties collected on cement since they were imposed in 1990, but Washington has never accepted or implemented the panel verdict.

For two years Gatt's anti-dumping committee has operated in parallel with the WTO, primarily to resolve the remaining outstanding disputes, but it is due to be wound up at the end of December.

Mexico said yesterday it reserved the right to take the case to the WTO, whose tougher dispute settlement rules do not give member states the right of veto.

In another anti-dumping case left over from the Gatt, the European Union yesterday continued to block a 1995 panel report that said it wrongly assessed duties on Japanese audio cassettes. Brussels has since rescinded the duties but has refused to adopt the report on the grounds that it is now in the process of revising its anti-dumping rules. Japan said yesterday it might call a special meeting of the Gatt anti-dumping committee in a last attempt to secure adoption. *Frances Williams, Geneva*

Vietnam studies refinery plan

State oil agency PetroVietnam and six foreign companies have finished a feasibility study for Vietnam's first oil refinery, industry officials said yesterday. The report will be submitted to the government for approval next month, part of a tight official timetable that sees the 130,000 b/d refinery, expected to cost $1.3bn, completed by 2000.

Hanoi said last year it needed a refinery to reduce reliance on imports and cut its fuel bill, despite signs of refining overcapacity in the region. Total of France pulled out of the project, saying the remote coastal site at Dung Quat was too far from Vietnam's offshore oil fields to be economically viable. The area's poor infrastructure was also cited as a serious hurdle.

PetroVietnam and a consortium led by LG Group of South Korea hold 30 per cent in the feasibility study, which began in March. Stone and Webster of the US has 3 per cent of LG Group's share. A further 30 per cent is shared by Petronas of Malaysia and Conoco of the US, with the rest held by two Taiwanese concerns, Chinese Petroleum Corp and Chinese Investment Development Corp. However, the project cannot go any further until all or some of the partners agree to form a joint venture, itself impossible before all parties agree on a financing formula. *Jeremy Grant, Hanoi*

■ F L Schmidt, the Danish cement milling equipment group, has signed a DKr220m contract with Indonesia's P T Semen Baturaja to upgrade the state-owned cement plant on the island of Sumatra. The modernisation will raise capacity from 1,700 to 4,300 tonnes of cement a day. *Hilary Barnes, Copenhagen*

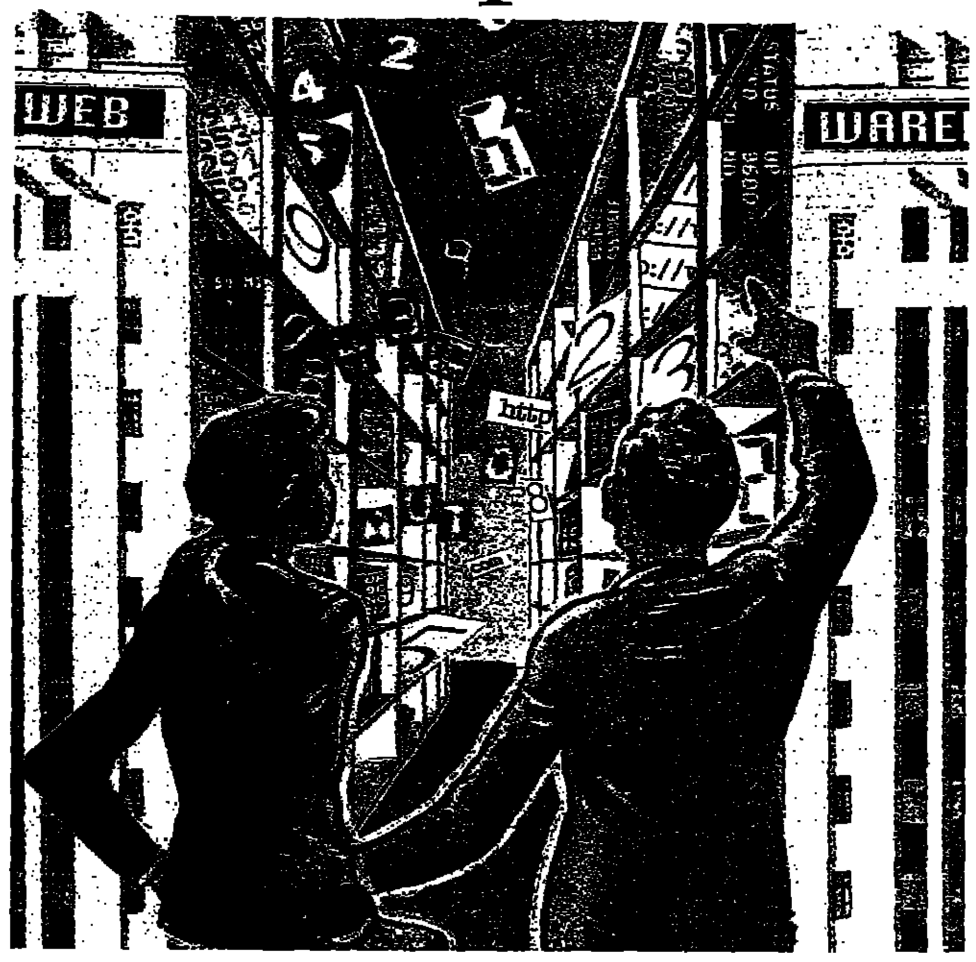
■ Hughes Network Systems, a unit of Hughes Electronics of the US, is close to completing a $15m-$20m contract with the municipal telecommunications company of Vietnam's capital city, Hanoi Post & Telecommunications. Under the contract, Hughes would install about 17,000 telephone lines. *AP-Dow Jones, Ho Chi Minh City*

■ Sasol, the South African synthetic fuels and petrochemicals producer, said yesterday it had awarded a R410m ($89m) contract to Japan's Hitachi Zosen and Marubeni to supply seven synthetic fuel reactors. Four of the reactors will be the biggest in the world, each weighing 1,600 tons. *AP-Dow Jones, Johannesburg*

Information management · Vanessa Houlder

Warehouse parties

Companies are welcoming customers and suppliers to their databases



ShopKo Stores, a discount department store chain based in Green Bay, Wisconsin, is about to embark on a pioneering experiment with its suppliers.

From December, its suppliers will be able to gain access via the Internet to its "data warehouse" – a database designed to assist decisionmaking – to analyse product sales.

They will be able to log on to ShopKo's Web page and use standard Web browsers to reach ShopKo's "market basket" data. That will allow them to analyse the combinations of products bought by individual buyers and test the effectiveness of promotional campaigns.

"We believe it will be a win-win situation," says Jim Tucker, chief information officer of ShopKo. "If our suppliers understand our customers' behaviour better, it helps them and it helps us serve our customers better."

Internet-based applications are the latest trend in the rapidly evolving data warehouse market. Although data warehouses were first developed in the early 1980s, there has been a surge in their popularity over the past few years, as a result of improvements in technology and the increasing need for managers to gain rapid access to information.

Data warehouses make it easier to access and analyse information because they bring together data from a number of systems that support business functions. They arrange the information in a way that makes it easy to analyse, using such techniques as data-mining, data visualisation and desktop mapping.

"The current dramatic rise in interest in data warehousing is due to widespread recognition that, for once, a technical solution is meeting a real and widespread business need," says Ovum, the research group, in a recent report on the data warehouse. It predicts that the proportion of medium-to-large companies with data warehouses will rise from 20 per cent to 80 per cent over the next five years.

The increasing familiarity with data warehousing has allowed suppliers and companies to focus on a new issue: how to make them accessible to a greater number of potential users.

"A whole host of technologies have made building a warehouse a more practical proposition. Now people are thinking less about building a warehouse and more about how to use it," says David Gittings, a senior consultant at Sun Microsystems, the computer workstation and network server manufacturer. He believes that there is pressure to open warehouses up to a far wider group of people, inside and outside the organisation.

MicroStrategy, a data warehouse specialist, is a leading advocate of this idea, which it describes as "consumerising" the warehouse. "Many corporations have a vast amount of information which they have spent money accumulating, but they have not been able to distribute it. The Web is the perfect vehicle for it," says Stewart Holness, MicroStrategy's UK country manager.

The advantage of this approach – which has been dubbed "Web warehousing" – is its cost-effectiveness. The individual user only has to know how to use a standard Web browser, which is relatively cheap and simple to run, leaving IT specialists to manage the complex software.

Many companies are likely to see benefits in opening up their warehouses to their employees, suppliers and customers. MicroStrategy thinks that they could go even further. It argues that many businesses, such as market research companies, credit card issuers, telecommunications companies, banks and insurance companies have accumulated demographic data that would be of interest to other companies in planning their sales and marketing.

Those companies could allow other companies to access their data warehouses through the Internet. By charging for its use, they could turn a cost centre into a profit centre, it says.

Axciom, an Arkansas-based information database service provider, has taken a step in this direction, by allowing its clients to access its data remotely. "It will provide a more cost-effective access to large organisations with remote users," says Dave Wilson, business unit executive.

Wilson notes, however, that Axciom is careful about which companies receive its data in this way. It would not distribute data over the Web without vetting the recipients, he says.

The question of how widely data is distributed raises some delicate issues. Consumers may be sensitive about data becoming more widely available; in the US there have been moves to tighten regulations on how consumer data is used.

More generally, companies are nervous about the prospect of making corporate data available over the Web, because of the risk that it would allow competitors to gain access to strategic information.

"One of the challenges is that there is very sensitive data, which you may not want people to see," says Mel Ireland, manager of consumer relationship management solutions at NCR, the computer company.

"Security is certainly an issue which should be treated seriously," says David Wells of Ovum. But he believes that it can be solved by careful software design.

He draws a distinction between the type of corporate information that may be freely disseminated inside or outside the organisation, and more commercially sensitive data, such as breakdowns of product sales, which should only be accessed by a limited number of employees. The security measures needed for more confidential information would add considerably to the cost of the Web warehousing, he says.

Another issue that could hinder the take-up of Web warehousing concerns congestion on the Internet. Users of a data warehouse would quickly become frustrated and disillusioned if it proved difficult to gain access to the Website.

But suppliers believe the potential benefits of opening up data warehouses through the Net will outweigh their drawbacks. Many have already designed technology that will allow companies to integrate their data warehouses with the Web.

The applications that are available or becoming available include MicroStrategy's DSS Web, Hewlett-Packard's OpenWarehouse Web initiative and IBM's Web-integrated data-mining product which is likely to become available next year.

In addition to allowing large companies to mine their data warehouses with Web browsers, IBM has proposed a service for smaller companies that cannot afford or do not need complete data warehousing systems. They will be able to use warehouses hosted by IBM, fed by data sent to and fro over the Internet.

The companies that are getting involved in this market have high expectations. NEC, the Japanese electronics company, expects sales of Y150bn (£837m) over the first three years from a new business division that has just been set up to link corporate intranet systems with data warehouses.

David Wells thinks the suppliers' confidence in Web warehousing is justified because the risks and costs of connecting a data warehouse to the Web are limited. "As yet, Web warehousing is an experiment," he says. "But it is an experiment that is likely to succeed."

The weekly Business and the Environment Page will be relaunched in a new monthly format on Wednesday November 6

Information Technology

● The FT's review of Information Technology appears on the first Wednesday of each month

Eagle Eye · Louise Kehoe

Enter a cybersleuth

With so many tools available for tracking people on the Net, it cannot be long before they are used routinely for references

I have become an Internet sleuth. It all started a month ago when my college-age daughter needed a new flatmate. Posting "room for rent" notices in Internet newsgroups and Yahoo's classified section produced a steady stream of inquiries, many of them from young people joining local software companies.

Spurred on by the prospect of paying the rent for the vacant room, I eagerly took on the task of checking out these applicants. Since credit reports do not tell much about a 21-year-old, I looked again to the Net.

Finding these young people on the Internet and learning about their lifestyles proved remarkably easy. One young man appeared promising until I read his personal Web pages. Scattered with thinly veiled allusions to drugs, the pages provided new, and not encouraging, insight.

While in the investigative mode, I searched for newsgroup messages posted by some of the applicants and uncovered interests that few people would share with a prospective landlord.

I found several readily available tools for tracking people on the Internet. There are search engines to comb through the Web and newsgroups, as well as "white pages" directories that list millions of e-mail addresses.

The white pages, in particular, are a boon for the Internet investigator – and for anyone who needs to find an e-mail address. But privacy advocates are raising alarms. They contend that the directories are open to abuse by "junk e-mailers" and complain that listings should be voluntary.

These are valid concerns. There should also be limits on how much information is provided in a directory. Bigfoot, for example, displays not only your name, postal addresses and phone number, but also a map – in case your Internet friends and foes need directions to your front door.

Yet I suspect that much of the opposition to e-mail directories is motivated by a desire to maintain the quasi-anonymity of cyberspace. I have little sympathy for those who hide behind pseudonyms to send messages they would not have the courage, or stupidity, to deliver in person.

Search tools may even help to clean up the Internet by bringing it home to users that they are as much responsible for the words they tap into an online discussion group as those that they express elsewhere. One can only wonder how many of the bizarre Internet newsgroups would exist if participants realised that their true identity and address is not difficult to find.

To date, the privacy debate has focused primarily on the potential for commercial exploitation of personal information. Yet information already freely available on the Net may pose a more immediate and potentially more serious threat to personal privacy. There are huge archives of information on the Internet that may contain embarrassing, or even incriminating messages, many of which can now be searched and linked to individuals.

I have little sympathy for those who hide behind pseudonyms to send messages they would not have the courage, or stupidity, to deliver in person

How long will it be before an Internet check becomes part of the process of getting a job or a loan?

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You are on the road. Whether it is Bangalore or Birmingham, you are a long way from home and office. So how do you pick up your e-mail? Even assuming that you crawl under the hotel bed and figure out how to plug your modem into a foreign phone jack, the telephone costs of calling your Internet service back home may be prohibitive.

Enter i-Pass. Akin to bank networks such as Cirrus and Star that allow customers of one bank to use the ATMs of another, i-Pass is forging agreements among Internet service providers to enable them to trade time on each other's networks. The goal is to provide local access numbers for travellers. To date, i-Pass has signed up Internet services in some 500 cities. Providers are expected to begin rolling out the service in the next few months.

This is an idea whose time has come. E-mail is now an essential form of business communication. Local access, wherever you may be, would be a big advantage.

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Marimba, an eight-month-old software business formed by four of the developers of Sun Microsystems' Java programming language, is striking a chord with Internet publishers.

Its new Castanet software enables Website operators to "broadcast" information to subscribers' computers, rather than waiting for surfers to hit their pages. To receive these broadcasts, users can install a Castanet "tuner" program to select "channels" that will automatically be updated on their computer's hard disks at predetermined intervals.

PointCast, which pioneered the Internet broadcast approach with its news services, has already proven the concept. With its automatic updates of news on selected topics, PointCast is a big time-saver. The drawback is that it may not carry all the news services you want. Castanet, in contrast, enables any Web publisher to become an Internet broadcaster. Marimba's founders imagine channels carrying global interactive games, real-time sportscasts, programs to automatically alert you to news relating to investments and Internet soap operas.

Does this mean that eventually there may be thousands of channels on the Internet? If so, the limited storage capacity of most PCs could force users back into the search and download mode. Alternatively, we may become far more selective about the services we choose to access.

This technology could nonetheless change radically the way information is published on the Internet. Already Marimba is beginning to look like the next Netscape. I have a feeling we will be hearing a lot more about this little band of programmers.

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What are your views on Internet privacy? Are the white pages directories giving away too much information? Should snoops be able to search your newsgroup messages? Are Website operators tracking your activities? Join me in the new Eagle Eye discussion group on Ft.com, the FT Web site, at *http://www.ft.com.*

Louise Kehoe can also be reached via e-mail at *lkehoe@ix.netcom.com*

Shopping while you surf

Retailers will soon have to go virtual as Internet outlets drop in price, says James Mackintosh

Setting up shop on the Internet is not the most appealing project for most retailers, as the first stores to move online discovered. Not only is the market small, but the costs of setting up secure credit-card software were prohibitive. However, in the past month, off-the-shelf software and services have cut the cost from almost £500,000 to under £3,000.

In the UK it is possible to put a corner shop online for only £500 with UUnet Pipex, a large Internet access provider. In the US, AT&T's SecureBuy service, with guarantees for both shoppers and traders, will start charging just $495 a month from mid-November, while in Canada, iStar Internet has linked up with three banks and a delivery company to offer a complete virtual shop service, with online calculation of delivery charges and international taxes built in.

These services mark the coming of age of consumer commerce on the Internet. Forrester Research, a US consultancy, estimates the cost of setting up and running a sales site, was almost $3.4m last year, including start-up hardware, software and programming costs of more than $675,000, while the total market was worth only $500m. But Forrester estimates it will be worth $6.6bn by 2000, and others are even more bullish. The new services are possible because of links being created between service providers such as iStar, banks, and software companies such as Open Market producing programmes which simply plug into banks' systems.

Richard Nuttall, Pipex's director of electronic commerce, estimates that a small business can get a complete Website designed and linked to National Westminster Bank for under £3,000. He points to Trafford Software, which will be the first company to adopt Pipex's service. A start-up selling an encryption programme, the company was looking for a distribution outlet and decided to use the Internet because of the low entry cost. "They can focus on designing and building software which is what they do best and we can help them with all the back office functions," Nuttall says.

But in the US and Canada, services to small businesses joining the Net will go beyond the back office, with AT&T giving the online shop free advertising. AT&T is also trying to overcome customers' worries about giving out credit-card details online: holders of its credit and phone cards are guaranteed against up to $50 loss from online fraud. In Canada, iStar will take over not only sales and advertising but, through its link with the Canada Post Corporation, distribution as well.

The other factor companies must consider before moving online is the cost of keeping information and prices on their Web pages up to date. Web design companies can be cut out altogether by most companies, with programmes such as Hot Metal Pro and iCat's Commerce Suite dealing with all the intricacies of HTML, the Internet design language. As David Aldridge, a vice-president of iCat, points out, the software should link with catalogues and databases. iCat's system will take pre-existing databases of prices and products and publish them in any format in minutes – although anyone setting up shop on the Internet should consider adding video and sound to their catalogue, which takes more time.

By making it possible for a small team with a well organised distribution network to compete with the biggest retailers in the world, the Internet provides enormous opportunities for specialised groups, Mr Nuttall says.

"I think the exciting opportunity now is for the virtual retailer," he said. "There is no distribution or manufacturing because that's all outsourced, and all the PR and publicity can be done on the Internet."

Jonathan Reynolds, fellow in retail marketing at Templeton College, Oxford, says the large retailers should be watching out. "If they don't [get online] it is not other retailers they should be concerned about but others in the supply chain: suppliers and distributors."

Minister dismisses 'arms for oil' claims

By Bruce Clark, Diplomatic Correspondent

Mr Malcolm Rifkind, the UK foreign secretary, yesterday dismissed as "total rubbish" suggestions that Britain had relaxed its arms embargo against Argentina as part of a trade-off involving oil exploration in the south Atlantic.

"It is total, unqualified, unequivocal, unconstrained and unlimited rubbish," he told diplomatic correspondents. "I can say that with full knowledge of the facts, unlike those who are giving an alternative version."

In a documentary tomorrow night, Channel 4 television will claim that UK moves to loosen the interpretation of the arms embargo coincided closely with negotiations on an oil exploration deal that led to an accord in September 1995.

The *Dispatches* programme also asserts that a substantial change in export policy towards Buenos Aires was hidden from parliament.

The programme stops short of alleging a direct link between arms exports and oil exploration but it leaves "the viewer to draw his or her own conclusion" about the timing, according to a Channel 4 spokesman.

Mr Eduardo Menem, an Argentine senator and brother of the Argentine president, disclosed in London on September 13 1995 that he was optimistic about an early move to relax the embargo and authorise the supply of naval engine parts. The oil exploration deal was signed by Mr Rifkind and Mr Guido di Tella, Argentine foreign minister, in New York on September 27.

Mr di Tella says in the programme that he used the meeting to reiterate Argentina's wish for an early lifting of the embargo, but he does not suggest that there was any trade-off.

The documentary includes interviews with Argentine naval officers who confirm that the procurement of parts for Type engines, made by Rolls-Royce for Argentina's warships, had recently become much easier.

Rolls-Royce said yesterday it had approached the DTI about 18 months ago for guidance on whether the engines could be sold to Argentina under the embargo. The DTI had advised that the whole engine was subject to embargo but some of its parts could legally be exported. The company declined to say when the DTI pronounced this. Mr Rifkind said the September 1995 oil exploration agreement "came after many months of negotiations [which] did not include extraneous issues".

Manufacturing optimism grows

By Robert Chote, Economics Editor

The upturn in British manufacturing is set to gather pace in coming months, with no sign yet that the stronger pound is causing any problems, the Confederation of British Industry said yesterday.

Adjusting for normal seasonal patterns, the latest quarterly industrial trends survey by the CBI – the UK's largest employers' lobby – showed a marked improvement in manufacturers' optimism, with the balance of companies expecting to invest more in plant and machinery rising to a seven-year high.

The survey will provide ammunition for both Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England – the UK's central bank – when they discuss interest rates next Wednesday. It suggests that the benefits of strong consumer spending are feeding through to Britain's factories, but are so far not causing much inflationary pressure.

Over the past four months new orders picked up at their sharpest rate since April last year. Both domestic and export orders are forecast to rise more strongly over the next four months, although in recent surveys these expectations have proved over-optimistic.

The survey of 1,155 manufacturers was carried out before the recent surge in the pound. But Mr Andrew Buxton, chairman of the CBI's economic affairs panel, said subsequent anecdotal evidence had suggested that industry was not worried by the present level of the pound.

"There will obviously come a point where they would worry, but I don't know what that is," he said. Mr Buxton added that interest rates should be kept at 5.75 per cent for now, but that the next move was more likely to be up than down.

The pound edged up to 89.3 per cent of its 1990 value against a basket of other currencies, compared with 89 per cent on Monday. Expectations of higher interest rates in the run-up to the general election – due to be held by the end of May – meanwhile receded a little in the sterling futures market.

Factory output has stagnated for most of the past year, with tentative signs of an upturn during July and August.

The Engineering Employers' Federation, meanwhile, forecast that business in its industry would increase by 3 per cent next year, up from the 1.9 per cent improvement expected in 1996.

Reinsurance for earthquakes in California found

By Jim Kelly, Accountancy Correspondent

The London insurance market is to provide $300m in reinsurance cover for the California Earthquake Authority – an innovative state-sponsored body set up to provide homeowners in the state with protection against catastrophe.

The latest figures on the market's involvement in the scheme were given yesterday in London by Mr Chuck Quackenbush, the California state insurance commissioner. He said Lloyd's would provide $200m of this.

The earthquake authority will use private sector capital and insurance cover and, in a further innovation, a layer of cover will be provided by the capital markets through special bonds issued in the US.

The scheme is designed to help solve the state's crisis over homeowners' insurance which followed the 1994 Los Angeles earthquake. Some insurance companies refused to renew policies and most *are limiting new ones.*

Mr Quackenbush said that if homeowners "go bare" and have no cover the taxpayer eventually suffered as the state would be required to step in and help if an earthquake struck. Rather than legislate to ensure homeowners were covered he said the state had opted for a partnership with the private sector.

He said it was a unique solution to providing insurance in areas prone to natural catastrophe that could provide a model for other *states and countries*. "We are harnessing the forces of the private sector," he said.

Mr Quackenbush said that a further $600m worth of cover was being provided by European reinsurers – including $100m from both Munich Re and Swiss Re – although their subsidiaries would contribute more to *the total.*

The contributions are part of $2bn in cover being sought as part of a complex $10.5bn reinsurance programme. Mr Quackenbush said that once in place the scheme would be adequate to meet claims from a disaster – *including the San* Francisco earthquake of 1906. It would be sufficient to cover the 1994 quake two-and-a-half times over.

Mr Quackenbush said that plans to provide some form of federal government cover for such disasters were now "back in the cupboard" and would take years to relaunch. "I can't wait for that," he said.

Colin Beere

Chuck Quackenbush: harnessing private sector forces

Government in rail sell-off row

By David Wighton, Political Correspondent

A renewed row over the *privatisation of the national* railway network erupted yesterday after the disclosure that the government blocked a plan for excess profits made by private operators to be shared with taxpayers.

A report by the National Audit Office also revealed that the rail franchising director broke Treasury guidelines by running up a £40m ($62.40m) bill for City of London advisers without setting any budget.

The disclosures will spark renewed criticism of the rail sell-off process which has seen directors of a train-leasing company pocket £80m ($124.80m)for selling out seven months after privatisation.

Mr Roger Salmon, the franchising director and former NM Rothschild merchant banker, believed strongly that the best value for taxpayers would be provided by requiring private rail operators to share any *abnormal profits with the* taxpayer.

But the audit office report reveals that Sir George Young, the transport secretary, blocked the move. In December 1995, Sir George took the unusual step of directing Mr Salmon formally not to pursue profit sharing proposals.

Ministers argued that *such* provisions could reduce possible benefits to passengers and would cut total returns to the taxpayer as bidders would offer less for franchises.

Mr Andrew Smith, shadow transport secretary, said: "In forcing through rail privatisation at any cost, bulldozing the *profit-sharing* proposals of his own accounting adviser, the secretary of state gave the green light for super-profits at the taxpayer's expense."

US company in Irish expansion

By John Murray Brown in Dublin

Northern Ireland's attempt *to attract inward invest*ment was given a fillip yesterday with the announcement that AVX, a US electronics company, is to spend £45.7m ($71.29m) over three years upgrading its Coleraine factory.

AVX, which makes ceramic capacitors for the consumer electronics, motor and *telecommunications* industries, plans to double daily production to 40m units within five years. It is to install a "clean room" facility.

The expansion by one of the oldest US companies in the province illustrates the fact that much fresh investment attracted to Northern Ireland is by existing investors, as distinct from new investment. The AVX expansion is not expected to create jobs.

The Carolina-based company, which employs 950 people in its factory in Northern Ireland and which set up in 1979, will receive *an IDB grant of £8m* towards the development.

The news coincides with the publication today of the annual report of the Industrial Development Board. The report says 1995 was a record year, with 4,869 jobs promised from 35 inward investment projects compared with 3,141 jobs in the *previous year*.

The IDB said *it* was revising its three-year jobs target to 1998 from 12,000 to 18,000.

The figures suggest that the ceasefires have had a less than dramatic impact on foreign perceptions of business prospects within the province.

The *US-listed* AVX *corpo*ration, which also has its European sales and distribution centre in Northern Ireland, at Larne, had sales of $1.1bn in 1995-96.

UK NEWS DIGEST

Shipping laws to be tightened

New laws designed to avert shipping disasters and clean up Britain's coastal waters will be brought forward today by Sir George Young, transport secretary. The Merchant Shipping bill will put into force *many of the recommendations* contained in Lord Donaldson's report into the Braer oil disaster off Shetland in 1993.

The new bill will tighten up rules on waste disposal in ports, provide ministers with more powers to intervene in a pollution incident and require non-UK ships to carry full insurance.

Sir George believes last February's Sea Empress oil spill in Pembrokeshire has heightened the need for new legislation on marine pollution. It also represents the latest stage of the government's crackdown on sub-standard shipping using UK waters.

Sir George is also looking for ways of passing on the costs of port-ship inspections to ship owners. Currently the cost is borne by the British taxpayer. A fifth provision will increase the liability to shipowners for compensation in pollution incidents. At present the limit for oil pollution is £130m ($202.80m), a figure agreed under international maritime law. Under the bill, a new £200m limit will be set for spills involving substances other than oil.

The final major component of the bill will be a measure requiring ship owners from outside the UK to have full third-party pollution insurance cover *while operating in* UK waters. *George Parker*

■ AEROSPACE

More global licences to be granted

Charter airlines have been given greater freedom to operate international routes, under liberalisation measures announced yesterday by the Civil Aviation Authority.

The CAA said it would grant charter airlines unrestricted global airline licences by abolishing the requirement for them to gain a licence for each route outside Europe. It granted the first global licence yesterday to Britannia Airways, part of Thomson, the UK's largest tour operator.

Britannia, which has been working closely with the CAA to establish the new global licence, said yesterday *that it would speed up the process of establishing new* routes and would save on administration. It was also a recognition of the expanding international operations of charter airlines, it said.

Long-haul package holiday travel has increased substantially in recent years, with destinations such as the Caribbean, the US and Australia joining the more established Mediterranean markets. Britannia said long-haul travel accounted for 20 per cent of its business from nothing 10 years ago. *Scheherazade Daneshkhu*

■ SINGLE CURRENCY

Two business sectors endorse Emu

The pro-European political lobby has been given fresh ammunition after two separate business sectors concluded they would benefit if the UK joined European Monetary Union.

The Chemicals Industry Association (CIA) announced that it supported early British entry into Emu, if the project was viable. Meanwhile, research from the Association of British Insurers also argues that UK entry could have a positive impact on the industry – although the benefits would initially be modest.

The findings are likely to fuel the debate about the impact of a single currency on UK companies ahead of the conference for the Confederation of British Industry – the UK's largest employers' lobby – next month. *Gillian Tett*

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■ EMPLOYMENT

Flexibility 'will aid jobs growth'

British executives are confident about business growth prospects, with 45 per cent expecting to create jobs over the next four years, according to the Institute of Management and the recruitment group Manpower.

Their fifth annual survey of long-term employment strategies attributes this optimism to the increasing use of flexible working practices in the UK.

The survey said the division of workforces between "core" workers *on staff and "complementary"* workers on contract was developing as employers sought ways to reduce costs and gain competitive advantage. Executives forecast that their use of contract workers would increase further as the European Union sought to impose more controls over directly employed workers in the UK. *Andrew Bolger*

■ QUEEN'S SPEECH

Legislation to target crime rate

A crackdown on crime is the centrepiece of this government's last legislative programme, which has been designed with the aim of the general election taking place on May 1 next year. Today's state opening of parliament and Queen's Speech will be ruthlessly exploited by Mr John Major, the prime minister, as showing his commitment to the crusade for "good citizenship" launched on Monday by the widow of a headteacher murdered outside a London school. *Robert Peston*

Recovery of Scandex clients' money 'unlikely'

By Clay Harris in London

Investors who lost more than £1m ($1.56m) on high-risk currency trades are unlikely see much practical benefit from yesterday's appointment of a provisional liquidator to Scandex Capital Management, the High Court was told.

Mr Philip Heslop QC, for the Securities and Investments Board, said: "The prognosis of significant recovery [of assets] must be poor." Mr Finbarr O'Connell, of accountants Grant Thornton, was appointed provisional liquidator.

The SIB is seeking to bar Copenhagen-based Scandex and Mr Jeremy Bartholomew-White, its managing director, from engaging in investment business in the UK. Mr Heslop said the SIB would pursue its action against Mr Bartholomew-White and inquiries into Scandex.

In a statement last night, Mr Bartholomew-White's solicitors emphasised that he had presented the winding-up petition at the behest of the court. "He does not accept and has never accepted any wrongdoing either on his part or that of Scandex." He would "fight vigorously" the SIB's claims.

Earlier yesterday, Mr Bartholomew-White was cross-examined *about shares in companies which* Scandex sold to investors and about the "US representative office" listed on its stationery.

On repeated occasions, Mr Bartholomew-White said he could answer questions if he were allowed to go to Denmark to obtain information. He has agreed not to leave the UK without the SIB's permission. He said all transactions carried out by Scandex were "honourable" and "*accountable*".

Referring to a letter that was sent to investors in Mr Bartholomew-White's name, Mr Heslop asked for the identity of "stockbrokers in the US" with which Scandex was said to have established "*working relationships*". Mr Bartholomew-White said he did not know the answer.

The Scandex managing director said he had never visited the New York *office, said* to be at 99 Wall Street, and did not know the name of the company that employed the people working there. Mr Heslop asked why calls to the number on the stationery reached a company called Roundhill First Capital, which said it had not heard of Scandex. Mr Bartholomew-White said it was possible it did "not want to be seen to be involved".

Mr Bartholomew-White said much of Scandex's back office operation had been contracted out to CDC, a Geneva-based company which also acted as counter party to some of its foreign exchange deals. The court also heard of previous business links between Mr Bartholomew-White and Mr Stephen Wheatley, who was described by the Scandex chief as a consultant to CDC.

Euro Currency Corporation, a London-based foreign exchange company run by Mr Bartholomew-White and which ceased trading in April, had cleared its trades through Sovereign (Forex), a company of which Mr Wheatley was a director and shareholder. Asked if Mr Wheatley had financed Euro Currency, Mr Bartholomew-White said he "did assist Euro Currency with its initial expenditure" to the tune of "about £50,000".

Television/**Christopher Dunkley**

The insidious formula system

Television is now so awash with formula drama – popular fiction series constructed to sets of specifications governing everything from length to location – that it is a bit of a shock to come across anything else. When you do find something that is not carefully designed to appeal to the tastes of C1 female viewers between the ages of 18 and 38 (or whatever) *the tendency is for* expectations to be raised to an impossibly high level. One-off items emerging from the minds of single authors, once the bedrock *of television drama*, are becoming so unusual that we tend to think they must be superior. But of course that is not so.

Rhodes, BBC1's eight-part *account of the life of Cecil* Rhodes, is not only the brainchild of one man, Antony Thomas, it is also said, at £8m, to be the most expensive drama the BBC has ever made. *Rhodes* has magnificent South African locations, Alec Curtis's photography is consistently superb, and there is some interesting casting. But does it grab you as a drama? Does it bring the character of Rhodes to life? Do you have the foggiest idea what is going on?

The trouble seems to be that instead of having the interests, instincts and skills of a dramatist at its centre, *Rhodes* springs from the passions of a journalist, albeit a good journalist – Thomas's documentaries include *Death Of A Princess* – but one who likes to leave you in no doubt about his opinions. This serial appears to begin *with the desire* that we should understand that colonialism and racism are wicked and that Rhodes stood for both. Had it begun instead *from a desire to climb inside the* mind of the kind of man who could do what Rhodes did, and work from the inside out to convey the complexities to the viewer, then perhaps the incidentals of splendid locations, camerawork and acting might have combined to create great drama.

It would be hard to imagine anything less like formula drama than *Loving*, BBC2's dramatisation of Henry Green's novel from the 1940s, set in wartime Ireland. Much of the time this felt like an episode of *Upstairs Downstairs* written by Dennis Potter, an irresistible combination. There was Potter's exultation in the erotic, especially in the scene where the half naked housemaids giggled and *frolicked in their* bedroom. There was the Potter-like use of vignettes which seemed oddly disconnected, and an interest in the implications and precise use of language – studied, stilted, and yet somehow still peculiarly authentic – which also reminded you of the old rascal. Above all there was the similar use of music from the crooners.

It was so powerfully atmo*spheric that there was no diffi*culty in suspending disbelief and entering into that hangover from the Edwardian world, the great country houses of the 1930s and 40s, which most of us know only from television. But when you finally re-emerged from the looking glass you tended to wonder why, instead of all the hints and allusions, we could not simply have been told the story straight out.

Perhaps this was one of *those literary* adaptations which win the approval of those who have loved the books because the TV versions remain so "faithful". But viewers who had not read the book – the *great majority, presumably* – might have been grateful for a little less literature and a bit more telly on the small screen.

Yet another BBC production, *Beck (there is an episode tonight* at 9.00 pm) clearly is formula drama. It is made in 55-minute chunks because the export market is largely commercial, not *public service, and*, thanks to breaks for advertisements, needs 55 minutes or less to fill one-hour slots. The macho central character is a blonde with a nice *figure, single, but serviced by* two wimpy, worshipping men. Her job is detection – she lives in London and tracks down missing persons – but she is not a police officer. Luckily one of her adoring chaps is, so she has an *entrée* to police files. She runs her own business with a multi-racial staff, but is too jolly decent to charge high enough fees to make a proper profit. *Hunch and instinct ("female* intuition" as they used to say) are her great strengths. You could go to the pattern book and create any number of variations: *brunette, rural setting, three* wimps in tow, works with animals, and so on.

Unhappily the much admired *Prime Suspect* series is now looking pretty much like *for*mula drama, too. This is partly because, having helped invent the more-macho-than-men female-detective-with-wimps-in-tow stereotype it now looks awfully like the clones which followed it. Moreover, just as some pop record producers try for a new hit by producing something as nearly as possible identical to the last one, so *Prime Suspect* now looks more and more like a pastiche of itself. Helen Mirren's characterisation is still enjoyable, but we have all heard the "Don't call me Ma'am" line until *we can recite it with her, and it* just is not news any more that a woman detective gets her man thanks to good old female intuition – whoops, sorry, hunch and *instinct*.

More seriously, if you insist on sticking to the four-hour formula when you have 90 minutes of good material, you begin to look slow and even risk being boring. Oddly enough this particular production, *Prime Suspect 5*, also suffered from the *sort of pre*scriptive journalism seen in *Rhodes*. Here, instead of colonialism and racism, the subjects for the sermon sub-text were the *proliferation of drugs and the* loss of the younger generation to a criminal sub-culture offering something more attractive than mainstream society. Most disappointing of all was *the infliction* of the Mexican stand-off formula at the end, with DS Tennison in the mandatory derelict warehouse facing the psychopath who has already pushed one victim through a hole in the floor. The plot contortions necessary to contrive this familiar climax were thoroughly unconvincing.

Having said all that, this was not a bad crime serial by prevailing *international standards*. But what a pity that, by insisting on using the formula system, working from the outside in rather than the inside out, a drama *which could have been outstand*ing became just another in the familiar catalogue.

Camp: Maggie Steed and Neil Stacy in 'Mrs. Warren's Profession' — Douglas H. Jeffery

Theatre/**Alastair Macaulay**

Shaw – with subtexts

Thank heavens for Bernard Shaw. Some plays today still seem to present women as if in the era before Ibsen's *A Doll's House* (1879) – women whose first duty is not to themselves but to their husbands and children. Shaw, however, so applauded the social audacity of Ibsenism that he kept moving forward from its premise. His women take charge of their own destinies, and some of them use men or drop men in so doing.

Over a century after he wrote it, *Mrs Warren's Profession* still enthralls. The title alone, of course, leads you to guess what profession Mrs Warren had or has – the oldest one. But I love the skill with which Shaw, so unsensationally, *first discloses* that; and I love more the skill with which, in consequence, he then develops one ethical and psychological debate after another. Mrs Warren finally recognises that what she likes, more even than her daughter, is making money. "I can't give it up – not for anybody."

But, when Vivie insists they must part, Mrs Warren, though she has scarcely been an attentive mother herself, reveals the selfishness of parenthood: "Who is to care for me when I'm old?" Vivie, *however, has learnt* that she wants neither parent nor husband. She rejects both. When the curtain falls, it is hard to know whether your heart is with Vivie, who is now alone as she will always be, or with Mrs Warren ("Lord help the world if everybody took to doing the right thing!").

London's new production of this play is directed by Neil Bartlett, artistic director of the Lyric Theatre, Hammersmith. Thanks to Shaw – whose sheer craft does so much to teach actors how to play him even now – Bartlett's staging is a great, and heartening, improvement on his last, *Sarrasine*, which I reviewed last month. True, it shows that Bartlett does not know how to work well on a large stage, how to *unify the different acting styles* among his cast, or how to make us believe that all his characters belong to the same world. All the performances are, individually, good enough or better, but each one is less *three-dimensional than Shaw* intended; and there is no chemistry between them.

But Shaw carries us over all these blips. No, *Mrs Warren's Profession* is not a great play – it is too schematically locked into dialectic to be great – but, like so many Shaw plays, it is far more engrossing than many that are.

Bartlett is a merchant of camp, and it is awkward how much Maggie Steed's Mrs Warren, both tough and mannered, looks and sounds like a female impersonator. Gruff-voiced, she uses a humming tremolo on her vowels, *turns her final consonants* into extra vowels "until she died (-der)" – and sounds like some English working-class Mae West, but without the zest or the nuance.

No doubt that is part of Bartlett's agenda. He also leaves us in little doubt that Mr Praed, Mrs Warren's unmarried artist friend, is homosexual, and lets us wonder occasionally about Vivie's sexual orientation, too. Most of Steed's performance is good; I especially admire the way she plays the whole role with full emotion but without once raising her voice. But it would be better if her butch/camp ways did not distract us into subtexts that are not Shaw's but Bartlett's.

Catherine Cusack plays Vivie full-out for bluestocking hardness: a bit too limited, but very arresting. Neil Stacy, though he overdoes some pauses early on, handles the urbane warmth and suavity of Mr Praed very well, and Gregor Truter, minimising the callow jollity of young Frank Gardner, Vivie's suitor, becomes the most affecting character onstage. As his ecclesiastical father and as Mrs Warren's business partner, John Quentin and Ian Gelder lend strong, well-paced playing.

Anyone could see the faults of this production, but in truth they hardly matter. Both cast and audience are caught up in Shaw's play.

Lyric Theatre, Hammersmith, London W6.

Theatre/**David Benedict**

Difficulty with Dietrich

"Love's always been my game / Play it how I may / I was made that way / I can't help it"

In common with almost every public remark she made, the sentiment behind Marlene Dietrich's signature song cannot be trusted. Fashioned (in every sense) and, most importantly, lit by Josef von Sternberg, the essence of her tantalising, insolent screen persona was sex, not pure and most definitely not simple.

As for being unable to "help it", she did everything within her power *to stage-manage her career* and image. Right up to the reclusive end of her days she mastered the art of myth-management.

Dietrich's untrustworthiness presents problems to the biographer. Pam Gems is no stranger to *this game with Piaf and Stanley* behind her, but rather than create dramatic tension from her subject's flatly-contradictory takes on her life, in *Marlene* Gems opts for a much more pedestrian account.

Set back-stage and on-stage at a concert in Paris in the 1960s, the self-styled "Queen of Ajax" begins by kneeling on a fur jacket to scrub down her dressing room. The play proceeds through the course of her preparation for the evening's performance, but despite some dove-tailing of songs to reflect on her past, present and future, attitudes and reminiscences are trotted out at random and Gems never solves the problem of the bio-play: how to dramatise all the exposition.

Dietrich barks, "You know what to do at curtain-down?" "Yes," *replies her efficient* personal assistant, who nevertheless has to stand there and be told while Gems fills in the audience. The gifted Lou Gish is wasted in this woefully underwritten role, which is there to *nod towards Dietrich's* lesbianism and to act as a sounding-board. There is even less dramatic function behind the role of her silent, elderly dresser, other than to illustrate Dietrich's violent mood swings from generosity to imperiousness.

Perhaps it is all a case of being too in love with the subject. Sean Mathias directs with kid-gloves on, stopping short of allowing his *star to really let rip* in her moments of anger.

Sian Phillips, however, lifts all this into a different sphere. She transcends mere impersonation, deliberately moving away from the iconic image and thereby *delivering a delicious shock of* recognition when, for the purposes of an interview, she suddenly switches into the familiar public persona. When she stands beneath Mark Jonathan's von Sternberg-style lighting dressed in a copy of the famous $8,000 shimmering Jean Louis sheath, the illusion is complete.

Some of the incidental music is cheap but the arrangements fit Phillips's baritonal growl like a glove. Singing "Where Have All The Flowers Gone", Dietrich's anti-war lament, she captures the terrifying fragility beneath the hauteur. It is shocking and powerfully dramatic. Would that the play could match her.

At the Oldham Coliseum until Saturday, then on tour.

Concert

A cracking 'Façade'

If not exactly an unsung hero of British music (he has recording awards to endorse *his special gifts*), conductor Vernon Handley is not sung enough. His substitution for the indisposed Andrew Davis in the current South Bank mini-festival devoted to William Walton guaranteed a cracking performance from the BBC SO in last week's little and large programme: the Sinfonia Concertante and Second Symphony followed by the deceptive soufflé of *Façade*.

Deceptive because a full performance with speakers for Edith Sitwell's verse steers an exquisitely tenuous course between the Scylla of archness and the Charybdis of clod-hoppping. The evening's soloists were Richard Stilgoe, an expert in brittle panache, not to mention near-Gilbertian patter, and Juliet Stevenson.

The actress's great strength is a warmth, immediacy and directness which leave, however misleadingly, a down-to-earth impression: naturalism. In fact; the enemy of these poems' carefully choreographed vocal rhythms. Add to this the fear that she might, like many of her colleagues, be tempted to "act" the Sitwell verbal arabesques, linguistic curlicues and Corinthian clusters of images, and even Stevenson devotees were apprehensive as she faced the challenge of highly-wrought artifice.

In the event all went swimmingly, one false start and some initial theatricality apart. By the time we reached "By the Lake", with its chill mournfulness for dead love, she, together with the instrumentalists, was in confident form. The mixture of wistfulness, mockery and dream-like hallucination of *Daisy* and *Lily's* wandering in "Valse" could not be bettered; and the actress's much-loved resinous tones came into their own in the equally loved "Popular Song". By now the listener felt as confident as Stevenson that she will and should do *Façade* again.

Both reciters adopted a Mummerset accent for an ebullient "Country Dance". Stilgoe evoked (unintentionally?) a throatily nerdish John Major for the tra-la-la-la-las of "Polka" (funny and unexaggerated) and rattled out the patter of "Old Sir Faulk" *like a* machine-gun. Throughout, the conductor seemed more attentive to the players than the speakers, doubtless adding to the tension of performing under the eye of the composer's widow, herself something *of a specialist in the work*. If there were moments which suggested limited rehearsal time – the band in "Four in the Morning" was louder and less sensitive than ideal – there was fine playing, notably in the drowsy sensuousness of "A Man from a Far Countree".

Piers Lane was the buoyant pianist in the Sinfonia Concertante, where the orchestra captured both the predominant bright primary colours and the pastels of the minor-key slow movement. The Symphony, still the subject of contention among Waltonians, found an able champion in Handley and the band who emphasised a sleek, gleaming astringency of tone, the touch of orientalism in texture, and an emotional introspection that recalls Walton's opera, *Troilus and Cressida*.

Martin Hoyle

INTERNATIONAL ARTS GUIDE

BARCELONA

EXHIBITION
Fundació Antoni Tàpies Tel: 34-3-4870315
● Video Signals: exhibition on Spanish video art *in the past 10 years*. The display features 40 works by 34 artists; to Oct 27

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Akademie für Alte Musik Berlin: perform works by J.S. Bach, Rameau and Rebel; 7.30pm; Oct 25
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Sinfonie Orchester Berlin: with conductor Borislav Iwanov and pianist Ryoko Kawabe perform Tchaikovsky's Piano Concerto No.2 in G major, Capriccio Italien, and Symphony No.5 in E minor; 8pm; Oct 25

DANCE
Staatsoper Unter den Linden Tel: 49-30-20354438
● *Ballett der Staatsoper Unter den Linden: perform Michail Fokine's Les Sylphides to music by Chopin, Le Spectre de la Rose to music by Von Weber, and The Dying Swan to music by Saint-Saëns, Vaslav Nijinsky's L'Après-Midi d'un Faune to music by Debussy and Bronislava Nijinska's Les Noces to music by Stravinsky*; 7.30pm; Oct 25

BRUSSELS

CONCERT
Cirque Royal Tel: 32-2-2182015
● Serge Lama: performance by the French singer; 8.30pm; Oct 24

COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Kölner Rundfunkorchester: with conductor Johannes Wildner, soprano Petra Maria Schnitzler and tenor Herbert Lippert perform works by Lanner, Strauss, Lehár and Stolz; 8pm; Oct 26

EXHIBITION
Römisch-Germanisches Museum Tel: 49-221-2214438
● Tu Felix Agrippina: this exhibition features images of members of the family of the Roman emperor Augustus. *Among them is Agrippina, who* founded the city of Cologne. Exhibition on the occasion of the 50th anniversary of the Römisch-Germanisches Museum; to Oct 27

OPERA
Opernhaus Tel: 49-221-2218240
● Serse: by Handel. Conducted by Alan Hacker, performed by the Oper Köln. Soloists include Paula Rasmussen and Graham Pushee; 7.30pm; Oct 26

COPENHAGEN

DANCE
Det Kongelige Teater Tel: 45-33 69 69 69
● A Midsummer Night's Dream: a *choreography by George* Balanchine to music by Mendelssohn, performed by the Royal Danish Ballet. Soloists include Silja Schandorff and Aage Thordal Christensen; 8pm; Oct 25

EXHIBITION
Ny Carlsberg Glyptothek Tel: 45-33 41 81 41
● 125 Years of Danish Sculpture – Danish Sculpture Around 1900 and Carl Jacobsen: *on the 125th* anniversary of Den Danske Bank, a series of exhibitions is presented at 18 art museums and galleries throughout Denmark under the title "Danish Sculpture in 125 Years". Each provides a *comprehensive survey of what* has happened in Danish sculpture since the era of the classicist sculptor Bertel Thorvaldsen. The exhibition at the Ny Carlsberg *Glyptothek features a selection of* Danish sculpture from the period 1870-1910, including works by Ludvig Brandstrup, C.J. Bonnesen, Stephan Sinding, Karl Nielsen and others; to Nov 17

DUBLIN

JAZZ & BLUES
National Concert Hall – Ceoláras Náisiúnta Tel: 353-1-6711888
● Frank Tate's Guinness All-Stars: featuring tenor-saxophonist Harry Allen, *guitarist* Howard Alden, pianist Dave McKenna, double bass-player Frank Tate, drummer Butch Miles and special guests guitarist Louis Stewart and saxophonist Richie Buckley; 8pm; Oct 24

LONDON

AUCTION
Christie's South Kensington Tel: 44-171-5817611
● *The Library of the late Jean Albert Gondrexon (1906-1985)*: this Parisian publisher's library comprises finely bound literary sets and modern first editions in English, French and German. The volumes highlight Gondrexon's *eye for quality, and by inscription* reflect his friendship with André Gide, Jean Cocteau, Paul Valery, Paul Eluard and other French intellectuals; 11am & 2pm; Oct 25

CONCERT
Barbican Hall Tel: 44-171-6384141
● Stephen Kovacevich: the pianist performs works by J.S. Bach, Beethoven, R. Schumann and Schubert; 7.30pm; Oct 24
Royal Festival Hall Tel: 44-171-9604242
● The Guitar Trio: featuring Paco de Lucia, Al Di Meola and John McLaughlin; 7.30pm; Oct 24

OPERA
Royal Opera House – Covent Garden Tel: 44-171-2129234
● Die Walküre: by Wagner. Conducted by Bernard Haitink and performed by the Royal Opera. Soloists include Ulla Gustafsson, Jane Henschel and Penelope Chalmers; 5pm; Oct 25

MADRID

CONCERT
Auditorio Nacional de Música Tel: 34-1-3370100
● London Symphony: with conductor Riccardo Chailly perform works by Britten and Mahler; 10.30pm; Oct 25

DANCE
Teatro de la Zarzuela Tel: 34-1-5245400
● Ballet del Teatro Colón de Buenos Aires: perform Gustavo Mollajoli's Suite de Tango, J. Carter's El Niño Brujo to music by Salzedo and the third act of Marius Petipa's Don Quixote to music by Minkus; 8pm; Oct 23, 24, 25, 26, 27

NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● State Symphony of Russia: with conductor Evgeny Svetlanov and pianist Vladimir Ovchinikov *perform Tchaikovsky's March* Slave in B flat, Concert Fantasy in G for Piano and Suite No.3 in G; 8pm; Oct 25
Carnegie Hall Tel: 1-212-247-7800
● Olli Mustonen: the pianist performs works by Prokofiev, Debussy and Beethoven; 7.30pm; Oct 24

EXHIBITION
MOMA – Museum of Modern Art, New York Tel: 1-212-708-9400
● New Photography 12: the 12th exhibition in an annual series *devoted to contemporary* photography presents works by six artists: Richard Billingham, Thomas Demand, Osamu Kanemura, Sophie Ristelhueber, Georgina Starr, and Wolfgang Tillmans; from Oct 24 to Feb 4

PARIS

OPERA
L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● Rigoletto: by Verdi. Conducted by James Conlon and performed by the Orchestre et Choeurs de l'Opéra National de Paris. Soloists include Ramon Vargas, Giorgio Zancanaro and Youngok Shin; 7.30pm; Oct 25

VIENNA

CONCERT
OPERA
Wiener Staatsoper Tel: 43-1-514442960
● Un Ballo in Maschera: by Verdi. Conducted by Michael Halász, performed by the Wiener Staatsoper. Soloists include Michèle Crider, Anna Gonda and Dennis O'Neill; 7pm; Oct 24

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European Money Wheel

18.00
Financial Times Business Tonight

Edward Mortimer

Positive contact

Isolation by the outside world is no way to persuade regimes to improve their human rights records

Last week I attended the opening of a photographic exhibition in London entitled "Kurdistan: Repression and Resistance". It was concerned not with the situation in northern Iraq ("southern Kurdistan") but with the equally dire, and less well publicised, plight of the Kurds in south-eastern Turkey ("northern Kurdistan").

Hundreds of villages have been burned down by Turkish security forces since 1990. Perhaps as many as 2m people have fled their homes, most of them forcibly evacuated after refusing conscription as village guards, which they knew would expose them to attack by the guerrillas of the Kurdish Workers' Party (PKK). Many now live in filthy shanty towns on the outskirts of big cities, lacking both employment and basic services.

Torture is "widespread and systematic" in Turkey, and even children are not spared, according to a report (*Turkey: No Security Without Human Rights*, published this month by Amnesty International). In the six years to 1996 more than 90 people are known to have died in custody, and well over a hundred have "disappeared" after being arrested. More than 1,000 have died in political killings, apparently orchestrated by the security forces.

Of course, the violence is not one-sided. The PKK too, according to Amnesty, has killed hundreds of defenceless people. But that cannot justify the brutal behaviour of the Turkish state.

At the exhibition's opening Mr Haluk Gerger, a Turkish writer, spoke of the "organic unity" between human rights in Turkey and the Kurdish war. To research the root causes of the war, he said, is a punishable offence; to publish the results makes you a criminal or terrorist. Thus the Turkish people are denied the right even to think about the most fundamental problem facing their country. He compared the Turkish state to a sinking ship, but said the Kurds (to their great credit) wanted not to abandon it but to help clean it up.

This time last year Turkish diplomats were lobbying hard for the customs union between Turkey and the European Union. Promises were made, and constitutional amendments passed, to improve observance of human rights. Mrs Tansu Çiller, then Turkish prime minister, called elections for December 24, 10 days after the European parliament was due to vote.

She presented herself as the last bastion of European democracy against Moslem fundamentalism, into whose arms she said Europe would drive Turkey if it rejected the customs union.

The European parliament took note, and the customs union is now in force. But the Islamists won the election anyway. Their leader Mr Necmettin Erbakan is now prime minister, with Mrs Çiller as his deputy.

The party which won most votes in four south-eastern provinces received no seats, because it fell short of a countrywide 10 per cent threshold. It is now in the process of being banned – as happened to previous parties which mobilised the Kurdish vote. Overall the human rights situation is clearly no better, and probably worse.

Not surprisingly, the Kurds and their friends are very angry. Mr Gerger even said foreigners who supported the customs union had Turkish and Kurdish blood on their hands. That stung me, because I was one of them – as readers of this column may remember. But I am still not convinced we were wrong.

Personally I was not impressed by Mrs Çiller's scare-mongering about the Islamists. To me it seemed a good idea, as it apparently now does to her, that those who voted for Mr Erbakan should see how he performed in office, provided there were safeguards to ensure they had a chance to vote him out again.

Nor did I put much trust in her promises and amendments. Only last week I received yet another press release informing me that she had announced, once again, "the first in a series of reforms of laws affecting human rights".

Such legal provisions will always be ignored or circumvented so long as Turkish society has not internalised the values on which they are based, and achieved a broad consensus on the need to enforce them.

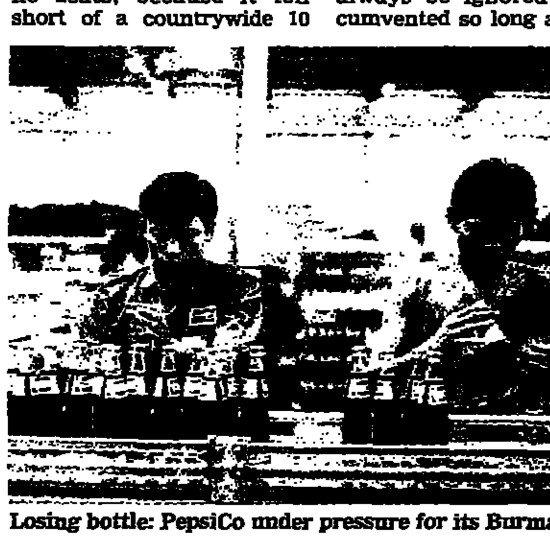
That can only be a long process, but there are signs that it is happening – one of them being the very fact that Mr Gerger could make such a speech in public as he did in London, knowing he would be back in Ankara next day. And I still think this process can best be helped by maximising contact between Turkey and the rest of Europe, not by cutting it off.

The same surely applies to Cuba and Iran, *pace* Senators Helms and D'Amato. I suspect it even applies to Burma, although there one hesitates to disagree with Ms Aung San Suu Kyi, a leader who was able to demonstrate, in the 1990 election organised by her opponents, that she enjoyed the confidence of more than 80 per cent of Burmese voters, and who is now calling for sanctions because the ruling junta still refuses to respect that verdict, or even to hold a dialogue with her.

If the junta were weak, divided and heavily dependent on western support, so that the shock of sanctions might induce a rapid change of heart, it would be worth trying. But sadly that is not the picture given by recent reports from Burma. Its rulers are clearly determined not to hand power to Ms Suu Kyi at any price.

They have a firm grip on the country. For a long time they isolated it almost completely from the rest of the world. There is little reason to think a further bout of isolation would damage their power.

Isolation generally slows down economic and social change, whereas foreign trade and investment have been potent and radical agents of change throughout the world. Where the west withholds investment, it reduces its own influence.



Losing bottle: PepsiCo under pressure for its Burma links

LETTERS TO THE EDITOR

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European parliament striving to tighten cold-calling protection

From Ken Collins MEP, and Ria Oomen-Ruijten MEP.

Sir, We read with interest your article on cold-calling ("European Artful Dodgers", October 15).

The European parliament voted amendments to the recent directive on distance selling which give the consumer greater protection against cold-calling. We introduced a stronger element of consumer consent to unsolicited selling by telephone, and we wanted to make it possible for consumers to join "opt-out" schemes, such as the mailing preference service in the UK, which do not yet exist in all EU countries and do not exist for many types of distance selling.

Members from our committee are at present negotiating this directive with the 15 EU governments under the new procedures introduced by the Maastricht Treaty and we hope that the majority of governments will agree to strengthen consumer protection against cold-calling along the lines that parliament has suggested.

Financial services are excluded from the draft directive. However, Commissioner Emma Bonino, who is responsible for consumer policy, is on record as having promised legislation on financial services and distance selling, and parliament will continue to pressure the Commission to fulfil this undertaking.

Ken Collins, chairman,
Ria Oomen-Ruijten, rapporteur,
committee on the environment, public health and consumer protection,
European parliament,
Brussels,
Belgium

Habit not stubbed out

From Mr Steven Zitzer.

Sir, Many of my colleagues and I at the headquarters of the bank Argentaria read with great interest your interview with our president, Francisco Gonzalez (Survey: Spanish banking and finance, October 15). However, your statement that no ashtrays are to be found in these headquarters is absolutely incorrect. In fact, outside Mr Gonzalez's beautiful offices, employees habitually blow tobacco smoke in all directions, perfectly in tune with the environmental policy of Cervantes' century and blissfully ignorant of the medical warnings of the twentieth.

Thank you nonetheless for having written your profile. It has given many of Argentaria's employees an opportunity to send our president a petition requesting that he indeed be consistent with your article!

Steven Zitzer,
Banco de Negocios Argentaria,
Paseo de Recoletos,
10.28001 Madrid, Spain

Bad judge on child labour

From Prof Alasdair Smith.

Sir, Denis MacShane (Letters, October 17) welcomes the fact that C&A and other garment retailers are to discuss a code of conduct on child labour and poor working conditions, but asks why the UK government is opposed to the World Trade Organisation setting up a working party to discuss similar issues.

There is an important difference. Much of the pressure for action on labour standards comes from interest groups whose concern is to protect themselves from foreign competition.

Governments are notoriously responsive to domestic producer pressure and unresponsive to the interests of consumers and foreign workers. C&A is not an unbiased judge of what is fair trade: but it is likely to be a better judge than governments or the WTO.

Alasdair Smith,
Sussex European Institute,
University of Sussex,
Brighton, BN1 9QN,
UK

No reflection on market

From Mr Peter Scaping.

Sir, Your article stating that a fall in the number of British Phonographic Industry certified music awards reflects "the subdued state of the UK music market" fails to understand the figures ("Music awards take a drop", October 16). The total number of awards did fall, but largely because the number of silver (lower value) awards dropped dramatically while the number of higher value awards such as multi, triple, double platinum and gold awards all increased. Year on year the total number of sales required for all awards increased from 20m to 29m. This does not seem to reflect a subdued market, more a buoyant state of affairs.

Peter Scaping,
research director,
British Phonographic Industry,
25 Savile Row,
London W1, UK

Dreamers cannot be trusted over euro

From Mr J.W. Beaumont.

Sir, For two years or more you have published articles and letters written by every expert about the euro. May I, a simple, financially uneducated, voter who has read all that has been published, offer my opinion which I am sure reflects the view of many throughout Europe.

I am extremely sceptical, simply because the euro is politically driven. If the bankers, industrialists and the commercial interests were screaming that the euro would be their ideal, then I would have some confidence. I simply do not trust politicians' promises, nor their economic forecasts. Most politicians are idealistic, ambitious dreamers who lead us dumb voters into paying more taxes.

As for the Eurosceptics who wish to maintain the UK's full sovereignty, I would merely say to them that Brussels and Strasbourg combined would not have ill-governed the UK as has Westminster over the last 50 years.

From full nationalisation, back to privatisation in such a short time is no way to conduct a nation's economic affairs.

The UK's membership of Europe has already been decided by the commercial interests of the US and Asia, which have already invested their cash and regard the UK as their gateway to Europe because they can understand the gatekeeper.

I trust people who want to make money. I don't trust politicians who want to make history.

J.W. Beaumont,
Brunnwartsweg 1,
D-82031 Grunwald,
Germany

Personal View · **Pedro Schwartz**

Emu as quack remedy

Monetary union is being peddled by Europe's politicians as if it was a panacea

Europe is on the brink of an unprecedented experiment – a merging of currencies among sovereign states, a fusing of the economic policies of diverse central banks – the like of which has not been seen in history, unless by imposition of a superior power over subject societies. The reactions of Europeans before this gamble are predictably mixed: enthusiasm or rejection in a few, grim determination in many, resignation in most. Profound anxiety is more than justified, for both economic and political reasons.

The principal conclusion I draw from the literature on currency areas, sparked off by the Canadian economist Robert Mundell in the early 1960s, is that an optimal zone is one with a single flexible labour market. A single currency can be expanded to larger areas, but only alongside a labour market in which relative wages are flexible and workers and entrepreneurs are ready to pitch tent elsewhere.

The labour market of the *European Union*, with its 18m unemployed, is very far from being integrated. The most important barriers are those of language and culture. Other barriers, such as over-generous unemployment benefits, national social security entitlements, non-portability of pension rights and public subsidies to ailing industries, could in principle be removed by *reforming public policy*. But in large parts of Europe, for the foreseeable future, they will reinforce the cultural differences, strongly discouraging people from seeking work away from home.

Thus, Spain, with a 20 per cent headline unemployment rate, and around 10 per cent of its labour force employed in the black economy, constitutes not only a defective monetary zone in itself. It would warp the smooth functioning of the European monetary union.

A further reason for resisting the entry into Emu of countries with rigid labour markets, such as Spain, is that, once inside, they will demand subsidies to alleviate their plight. This will prolong the illness. The clearest example is Canada, where the Atlantic provinces and Quebec suffer from structural unemployment and with this pretext draw subsidies to an extent that endangers the federation.

Flexible exchange rates would not help a country with a rigid labour market, but neither would merging this country in a monetary union do either it or the union any good: including a country with high structural unemployment in such a union will only create additional economic and social tensions.

Unfortunately, when debating the euro, such economic analysis usually counts for nothing. Emu is peddled as a political nostrum to cure all ailments. I sometimes think that the Common Market should not have been founded in Rome but in Vienna, on Dr Freud's couch. The Germans want the union to stop them from falling into Nazi ways. The French want to be cured of an inferiority complex. The Italians want to become a nation. The Spaniards want to bury Franco. The Portuguese want to be French. The Greeks don't want to be Turks....

This dangerous experiment of monetary union, this mountainous wager which could split Europe into "ins" and "outs", this change they say will not be done if we think twice about it, can only be understood as an attempt to build a certain kind of Europe through the back door.

Doing away with competition in the monetary field is really an attempt to make the move to a federal Europe irrevocable in the hope that monetary union will give a huge boost to centralisation in the EU.

The European Central Bank will decide interest rate policy for all member states. The Ecofin [council of finance ministers] will supervise their budgetary policy. Pressures will mount from the poorer member countries to get subsidies, and from the richer, to equalise social contributions and benefits across the community, in search of the proverbial level playing field that was a part of Mr Delors' flat earth economics.

The conflict between deepening and widening the union will sharpen. Instead of the euro running in parallel with the east European currencies, a long time will have to elapse before the central bank governors of Poland or the Czech Republic join the exalted board of the Frankfurt monetary authority.

Some of the backers of the euro have sought to create a reserve currency that could look the dollar in the eye. This fits in with an anti-Americanism prevalent in continental circles. They have forgotten that America saved our freedoms three times in a century, most recently in the cold war. They prefer the cosiness of their tribal customs to the riches of an Atlantic culture. Instead of thinking of a north Atlantic free trade area, many Emu backers dream of Fortress Europe.

If I spoke as a Spaniard, I might be tempted to hope for an early completion of monetary union that would force my country to control public spending and get rid of its inflationary habits. But speaking as a European, I reject the attempt to foist a federation on proud nation states, I refuse to obey the Franco-German diktat of a single currency, I lament the mounting pressures to exclude Britain from the EU, I fear the probable tensions between the "ins" and "outs", but I hope that sense will prevail and this shotgun marriage be postponed.

It is obvious from my analysis that Europe would do well to rethink its monetary plans. But if monetary union goes ahead, as I fear it may, Britain would be well advised to go it alone in monetary matters and set up an example of what can be achieved by a competitive, deregulated, private economy – especially in creating jobs for the unemployed. For a time, higher nominal interest rates will seem to give the lie to those of us who reject monetary union. But doing what is right ends by paying good dividends.

I conclude that Europe is too important to leave its fate in the hands of the political elites. Our leaders remind me of the military strategists of the first world war, who understood nothing but frontal assault and trench warfare, refused to consider anything but unconditional surrender, and after bloody victory insisted on imposing a Carthaginian peace on the vanquished. The fate of Europe should be handed back to its peoples.

The author is chief economist at Fincorp AV, the Madrid stockbroker. This is an extract from the 26th annual Wincott Lecture given yesterday for the Institute of Economic Affairs in London.

COMMENT & ANALYSIS

FINANCIAL TIMES
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Spanner in the works

For much of this year, it has seemed as if the European Union was set to confound sceptics who argue that it is incapable of agreeing on a coherent foreign policy. Galvanised by US legislation intended to penalise foreign investors in Cuba, Iran and Libya, the EU's 15 members have closed ranks to express determination to defend their economic interests. But now that they are being called upon to turn words into action, their new-found unity is in danger of falling apart.

Yesterday, Denmark threatened to veto a proposed EU "blocking statute", which would prohibit European companies from complying with the US legislation.

The Danes' quarrel is not with the statute's objectives, but with the means chosen to pursue them. Specifically, they object that, by proposing to base the statute on the catch-all Article 235 of the EU treaty – which allows for legislation not covered by other parts of the treaty – the European Commission is exceeding its authority.

Denmark appears to be making an issue of the provision because of pressure from its national parliament over alleged EU incursions into national sovereignty, while opponents of the Maastricht treaty are challenging its legality in court.

Prospects for EU action on the blocking statute may therefore depend on the Danish government's ability to square domestic political constituencies. At the least, that process could lead to delays, which would weaken the force of the blocking statute and undermine the EU's political credibility in Washington and elsewhere.

Denmark's position may be extreme – but it also points to a wider problem. Other governments, including Britain, France and Germany, are all suspicious that Brussels is out to enlarge EU powers over external trade policy at the expense of national sovereignty.

In this instance, these misgivings seem to have been outweighed by anger at the US legislation. But much the same reservations lie behind the resistance from EU governments to a recent Commission demand that its authority to negotiate on trade in goods be extended also to cover services.

The specific legal points on which the arguments turn are often technical and arcane. But they reflect deep institutional strains in the EU. At the least there is a growing imbalance between the union's internal integration and the constraints on its ability to conduct a coherent external economic policy. Deciding how to square this circle should be a priority for the inter-governmental conference.

Enlarging Nato

By publicly pledging that Nato will expand by April 1999, President Bill Clinton has thrown his personal weight behind a project that will require political courage and steady nerves both in Washington and in every capital in Europe.

The prize of a new European security order, with an enlarged and reformed Nato at its core, is an enormously desirable one. If all goes to plan, the outlines of Europe's post-cold war architecture will be defined at a summit meeting next year, attended by all western heads of government and perhaps the leaders of Russia and other east European states as well.

But huge pitfalls lie ahead. They include the near certainty of scare tactics by Russia, which has hinted darkly at retaliatory measures if Nato expands without its consent.

Mr Clinton took a first step towards addressing that problem by insisting yesterday that enlargement was not directed against anyone. Nevertheless, the US and its allies still face an acute dilemma: how far can they go towards assuaging Russian objections to enlargement without compromising the principle that no third country can dictate to the alliance?

In private, senior western politicians are laying down some guidelines as to what can and cannot be done to reassure Russia. In essence, they say that any conciliatory gestures the west makes to Moscow should be something more than the diplomatic equivalent of a crumb for a hungry and ill-tempered bear. They must be measures that are desirable in themselves, for both sides.

The US proposal for a Nato-Russia charter, providing a framework for political consultation and joint crisis management, would seem to pass this test. So would the Pentagon's proposal for closer Nato-Russia co-operation in peace-keeping, both in Bosnia and elsewhere.

The terms of a possible charter must be designed carefully so as to avoid giving Moscow a veto over alliance decisions. But in every area except performance of its core function – defending the territory of its members – Nato could do a great deal more to inform and involve Russia.

As of now, Nato's members face no visible threat of invasion. If that remains the case, the reformed alliance will spend an increasing proportion of its time carrying out new functions, such as peacekeeping in third countries, in which Russia and other non-members can be closely involved.

Russia must be told that it has everything to gain from co-operation with Nato expansion, and nothing to gain by obstruction.

UK cable TV

The UK cable industry is investing at a rate of £2bn a year to create a service which two thirds of its potential customers politely refuse. In some franchises, over 40 per cent of the customers who do sign up fail to renew. If the industry is to overcome these odds, yesterday's four-way agreement, headed by Cable and Wireless, to create by far the UK's biggest cable operator may prove a vital turning point.

The new deal creates a cable system with access to 6m out of the 18m UK homes for which cable franchises have been issued. It brings together as partners C&W, Bell Canada Enterprises, and Nynex, the New York Baby Bell. If three such partners cannot reverse the cable industry's disappointing progress in the UK, then nothing can.

UK cable has proved remarkably unsuccessful in selling one of its two staple products, television services. Only one in five households passed by cable signs up for cable TV. The industry has been more successful in selling telephone services: one in three homes passed signs up for television or telecoms or both, which partly explains C&W's interest.

Still, weak sales of television are the industry's Achilles heel. No doubt this partly reflects poor marketing by an industry which still has the mind-set of a utility. But it is also the result of tough competition – from terrestrial broadcasters, who offer UK households a skilful mixture of mass-audience and minority programming; and from satellite television, which has denied UK cable operators the flying start achieved in the US. Two more threats are visible: digital satellite, offering hundreds of channels; and possibly a nationwide video-on-demand service from BT, using ordinary phone lines and the technology known as ADSL.

On the phone side, both cable and C&W's Mercury service are threatened by BT's relentless price competition, and by the growing number of other competitors, including wireless ones. Those threats remain; but yesterday's deal clearly indicates that C&W is not prepared to cede the phone market to its larger rival without a fight. The stronger competitive challenge that the new combination will offer to BT's still dominant position in telephony is welcome.

The challenge for the cable industry is to establish a strong, positive image of the services it can provide. The industry's growing concentration – once yesterday's deal goes through, two groups will between them serve more than half the potential UK market – makes that task easier. It will still not be a sure bet, however, for as long as cable's most appealing content is its retransmission of BSkyB's satellite channels. The merger renews cable's hope of eventual success, but offers no promises.

The FT Interview · Alexander Kwasniewski

Cosmopolitan comrade

The Polish president tells Anthony Robinson and Christopher Bobinski of his desire for closer links with the EU and Nato

No country in Europe is more ardent in its desire to win membership of the European Union than Poland, arguably the biggest success story in the post-communist world. No country is more openly Eurosceptic than Britain.

Today, however, Mr Alexander Kwasniewski, the affable Polish president, will continue his wooing of the EU when he comes to London for two days of talks with Mr John Major, the UK prime minister, and other senior officials. The two men are as different as their governments' approaches to Europe: Mr Major, leader of the Conservative party, is a monoglot Englishman, while Mr Kwasniewski is a polyglot former communist apparatchik who is well received in the capitals of both eastern and western Europe.

Mr Kwasniewski, it is true, is despised by an irreconcilable minority of Poles. For them he will always be a turncoat and former lackey of the Soviet Union. He has not been able to exchange a single word with his predecessor, Mr Lech Walesa, the former Solidarity leader, who even refused to attend the swearing-in ceremony last December. But Mr Kwasniewski has four years of a five-year term as executive president ahead of him, and is widely seen as an able ambassador for his country.

Unlike the British, who tend to see European involvement in their affairs as an infringement of sovereignty, Poles and other central Europeans regard entry into both the EU and Nato as an expression of their recently regained sovereignty and freedom of choice.

Poles in general and Mr Kwasniewski in particular are in a hurry to join both institutions – just as Mr Helmut Kohl, the then west German chancellor, was in a hurry "to get the east German hay into the German barn" after the fall of the Berlin wall.

With similar urgency Mr Kwasniewski likes to speak of Poland's need to underpin its future security "in the five minutes given by history" – that is, while Poland is surrounded by a benign Germany to its west and a Russia to the east *struggling with its own* domestic agenda and seeking to strengthen its own democratic institutions.

"I set four goals for my presidency – sustained economic growth, entry into Nato, membership of the EU and strengthening the competitive spirit weakened during communism," said Mr Kwasniewski in an interview in the presidential palace in Warsaw. "The enlarged 21st century Europe will be more co-operative but it will also be highly competitive."

Rapid economic growth is the key to Poland's renewed confidence and European ambitions. Mr Grzegorz Kolodko, finance minister, estimates Poland's 39m people will have a gross domestic product half the size of Russia's by the turn of the century.

Mr Kwasniewski gave the interview hours after receiving an ovation from foreign investors. He had spoken at a conference in Warsaw's new Sheraton hotel while *dumper trucks were* laying foundations next door for the Dutch ING group's new central European regional headquarters; he had mentioned Poland's annual economic growth rate of between 6 per cent and 7 per cent and referred to a clutch of bank and big company privatisations planned for next year; he had also recalled the rapid rise in foreign investment to a total of $12bn by the end of this year and *the 70 per cent rise of Polish* exports in dollar terms over the past two years.

The foundations for Poland's economic resurgence were laid by the early, non-communist Solidarity governments. But fiscal rectitude and macro-economic stability survived the 1993 return to power of the former communists. As a result Poland's public debt is 54 per cent of GDP and the budget deficit, now at 2.8 per cent of GDP, is also within the Maastricht treaty convergence *criteria. Only inflation*, expected to be running at about 18 per cent by the end of this year, *remains way out of line*, although it is steadily falling.

"I told Mr Alexandre Lamfalussy [president of the European Monetary Institute, forerunner of the European central bank] that I could see Poland joining the EU by 2000 but could not imagine entering with the 3 per cent inflation needed to qualify for entry into the European monetary union," Mr Kwasniewski recalls.

"Lamfalussy replied that the *important thing was to ensure* that inflation came down steadily, without unsettling spikes. So one of our main goals is to cut inflation each year so it is absolutely under control by the time we enter the EU. Not everyone will enter Emu at the start, however, and we'll join that later," he said.

Poland has already secured the public *support of Mr Kohl* and Mr Jacques Chirac, the French president, for a target EU entry date of 2000. Mr Kwasniewski hopes that Mr Major will follow suit.

But British officials say they expect a less than ringing endorsement for the target date. This would not imply any doubts about Poland's efforts or enlargement in general, they say – merely concern that Warsaw *might sign up before clarifying* what it expected from the EU in the way of financial support, particularly for agriculture; at present, farming employs a quarter of the Polish population. The UK wants the full costs of enlargement to be clear at the outset and believes that Poland should not be hastily admitted in a purely political gesture.

For Poland, the priority is to be integrated into the defence and economic structures of Europe so that it is no longer left in a *dangerous limbo. It is a matter of* security, not ideology. "Maybe it's my past," said Mr Kwasniewski. "*We discussed so often* what socialism and capitalism meant. Now I steer clear of such descriptions. They don't reflect the complex realities of real political and social processes."

Improving Polish relations with Russia and all seven of Poland's new eastern neighbours has been a priority of the socialist-led coalition governments which have ruled Poland since September 1993. Mr Kwasniewski, *as president and commander* of the armed forces, has reinforced the drive for better relations, although he was careful to visit Paris, Bonn and Brussels before Moscow.

Few understand better than he the paradoxes of a Russia striving to build a democracy from the ruins of a militarised, ideological empire but still wedded to cold war concepts – including "buffer zones" and demands for a *privileged relationship with Nato.*

In Brussels and Moscow alike he has argued that the entry of Poland and other former Warsaw Pact states into Nato would mark a "qualitative" change which would erase the old cold war stereotypes.

Mr Kwasniewski, who revels in political anecdotes, recalls a recent visit to Moscow. "I asked Yevgeny Primakov, the Russian foreign minister, 'How are your *relations with France, with Germany* with the US?' and he replied, 'Fantastic'. I said, 'Well they are all Nato countries, so what are you worried about? When we join Nato our relations will be as good too.'

"It was a joke, of course, but meant to underline the paradoxical elements in the Russian position. Russia wants to be a democracy and to be accepted by others as such. A Nato of democratic states is not a threat to a democratic Russia. But Moscow still *retains some imperial* expectations.

"What is absolutely unacceptable *to us is that enlargement* should be preceded by Nato reforms and a special treaty between Nato and Russia, as Mr Alexander Lebed [the former national security chief] and Primakov have suggested. Nato reform and enlargement have their own separate timetables," he insists.

While the strategic grounds for Poland's Nato entry are clear, membership remains fraught *with practical and economic difficulties*. Ninety per cent of the equipment of the 250,000-strong Polish armed forces is of Soviet origin. Most of the military airfields and bases are concentrated along Poland's western borders.

Mr Kwasniewski says that a quick decision on Nato entry is also needed to allow the defence industry to re-organise. "It is very difficult to do business with the Russians now. But we need to *modernise our forces*. We are prepared to privatise parts of our defence industry. If British Aerospace or Lockheed or whomever make a good proposal to source components here or help privatise our defence industry that would be good."

Poland hopes to join Nato in the "first wave" of enlargement to the east after the Nato summit in the first half of next year. "We do not see Nato membership as a *protection against Russia* or because we aspire to be the eastern edge of Europe. We think we have a moral right because it was here that the peaceful revolution started which made a united Europe possible."

· OBSERVER ·

Sommer's phoney war

■ For months now, Deutsche Telekom has been touting its shares to retail investors in Germany. Feel the yield, the *company has told anyone* who will listen. So much more attractive than boring old D-Mark bonds.

If chief executive Ron Sommer's assurances weren't enough, his countrymen have been besieged with advertisements shouting out at them from every corner of the *domestic media. And it worked.* Over 3m people have said they are interested in the company's shares.

Which means that if most of them actually buy, Sommer has a problem; the retail portion of the issue would be vastly oversubscribed.

So what does Sommer do? *Subtly, ever so subtly, he has* started signalling that retail investors will be disappointed if they apply for too many shares. There are even hints that they may receive less than the minimum allotment of 100 shares.

Meanwhile those nice institutional investors – many of whom Sommer *will meet during* the coming weeks – are being assured that their tranches will not be gobbled up by greedy Herr and Frau Schmidt from Heimsdorf.

Sing one tune at the first party and another at the next – always a good policy.

Chirac the brave?

■ *Benjamin* Netanyahu, the Israeli prime minister, is not known for his contrite manner, whatever the circumstances – while Jacques Chirac, the French president, is used to having his orders obeyed. All that changed yesterday.

It started when Chirac took exception to the zealous security *forces protecting him from small* Arab shopkeepers during a walkabout in east Jerusalem.

Every time the president paused to chat or blow kisses to the crowd, the security men tried to move him along.

Chirac told them to "go away", but they took absolutely no notice. So Chirac adopted a tougher tone. "This is provocation. Stop this now. Do you want to me to go back to my plane and go home to France?" he shouted.

The conscientious security forces turned a deaf ear, which was when *the president of* France lost it. "No security now. I don't want you. Go away. You have no business here."

When Netanyahu heard about the incident, he did something he usually avoids – namely he apologised.

He reminded Chirac that it was nearly a year ago to the day that Yitzhak Rabin, the former prime minister, was assassinated by a Jew belonging to the extreme right wing.

Meanwhile Chirac, who like de Gaulle tends to journey from France *only* when he spots an opportunity to stir things up, lacks the general's turn of phrase. No "vive le Palestine libre" for him.

High and mighty

■ New Zealand may be a small country, but *counting has only* just been completed following last Saturday's election. That is proportional representation for you.

Cause for celebrations – over a quiet joint – for the Legalise Cannabis party. Under the new system, electors voted for parties as well as individual candidates, and over 26,000 of the 1.8m strong electorate backed the pro-pot brigade.

That looked more than respectable compared, for instance, with the centre-right United party, which had seven *members of parliament before* the election, including a former cabinet minister. It managed just 16,748 votes.

Those predicting the end of socialism will be pleased to learn that neither the World Socialist (NZ) nor the Communist League party received any votes at all.

Then again, ideological balance was achieved by the equally bad performance of the Private Enterprise party, which also failed to garner any support whatsoever.

Withering looks

■ Brigitte Bardot may have gained notoriety in recent years for voicing some unfortunate racist views, but at least France's most famous ex-sex symbol has the honesty to own up in public to her age – 66.

That is more than can be said for a number of other actresses, who unlike "BB" have apparently preferred not to appear in the latest French edition of *Who's Who*, published yesterday. They are rather more bashful about such sensitive facts – each of which is supposedly carefully verified.

But then the *Who's Who* team are a pretty secretive bunch themselves. The publisher refuses to name the 15 voluntary members of its powerful selection committee, charged with judging who merits *inclusion* and who should be axed.

An uncomfortable, if not downright dangerous job. Perhaps that is why the committee's composition also changes each year.

The Financial Times

100 years ago

Hankau-Pekin Railway
"The Pekin Gazette" publishes an Imperial edict appointing Sheng Taotai director of the Hankau-Pekin Railway. An American syndicate advances thirty millions of taels for the construction of the line which will be 710 miles in length and will involve the bridging of twenty-seven rivers. One bridge over the Whango will be of great length. Sheng has transferred at Hankau works, iron-works, and railway together to the syndicate, which will doubtless construct the line, the shares being ostensibly Chinese. - Reuter.

50 years ago

Future of Germany
Revealing the British plan for Germany that will be put before the Council of Foreign Ministers next month Mr. Bevin, Foreign Secretary, yesterday told the House of Commons that it proposed that certain basic industries should be owned and controlled by the public. Declaring that Germany should not be allowed to become a "permanent distressed area", the minister said that it was the Government's view that German industry should not be further crippled. He said Germany must be quickly "self-supporting" to ease the "most intolerable" burden on the British taxpayer.

FINANCIAL TIMES
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Ex-Sumitomo copper trader arrested in Tokyo

By William Dawkins in Tokyo

Mr Yasuo Hamanaka, the trader who once dominated the global copper market, was arrested yesterday, four months after Sumitomo Corporation sacked him, claiming he had lost \$2.6bn (£1.63bn) in unauthorised deals.

His arrest, on charges of forging company letters, followed a formal complaint by Sumitomo to the Tokyo district prosecutor's office, which had indicated in June that it was too busy to pursue an investigation into the case. Sumitomo said it was preparing a second charge of breach of trust.

Mr Naoko Kuroda, Sumitomo's managing director, insisted, however, that his executives had found no evidence so far that Mr Hamanaka had attempted to control the copper market or to drive up prices. Neither was there evidence that he had acted for personal gain. But Mr Kuroda gave no clear explanation for Mr Hamanaka's motive in allegedly forging the letters.

Other copper traders questioned the first assertion, saying that Mr Hamanaka had been able to move the market for nearly six years. They were also puzzled by Sumitomo's claim that Mr Hamanaka had acted alone.

Mr Hamanaka was known in the market as "Mr Five Per Cent" because his trading for Sumitomo accounted for about that proportion of the total world trade in copper. However, Sumitomo sometimes controlled a majority of physical copper traded through the London Metal Exchange, giving it extraordinary influence over prices.

Tokyo police yesterday searched Mr Hamanaka's suburban home for evidence and took him to the city's detention centre for questioning. Prosecutors accused him of forging the signatures of two senior managers on two letters in 1994, both to subsidiaries of Merrill Lynch, the US financial services group.

The first, in January, authorised Mr Hamanaka, then a deputy manager in Sumitomo's non-ferrous metals division, to undertake copper trades larger than his official dealing limit, said prosecutors. They said the second letter, eight months later, had allowed him to draw cash from deposits with Merrill Lynch units, relating to their copper dealings with Sumitomo.

Mr Kuroda yesterday accused Mr Hamanaka of forging many other letters recording fictional balances with copper trading customers. These are not included in the charges.

According to Mr Kuroda, none of the managers concerned knew about the forgeries or about Mr Hamanaka's trades, which took place off the company's books.

Mr Hamanaka yesterday remained silent about the allegations as he has done since he was sacked in mid-June. He had been involved almost to the end in a battle with some US hedge funds which were determined to drive copper prices down, while he was equally determined to keep them up.

Clinton commits US to Nato expansion by 1999

By Jurek Martin in Washington

President Bill Clinton yesterday committed the US government to the inclusion in Nato of new members from eastern Europe by 1999, the 50th birthday of the 16-nation military alliance.

He took pains to reassure Russia that "enlargement is not directed against anyone [but] will advance the security of everyone".

The president did not identify which countries were most likely to become Nato's next members. But it is assumed Poland, the Czech Republic and Hungary constitute the first tier of eligibility under Nato criteria, with Slovakia, Slovenia and possibly Romania following.

Formal decisions will be made at a Nato summit next spring, following the annual ministerial meeting in December. Traditionally, alliance policies are set by a consensus of members.

Mr Clinton's speech in Detroit was his first of the autumn presidential campaign devoted to foreign policy. Mr Bob Dole, his Republican opponent, has repeatedly called for an expansion of Nato but the president, ahead by 15-22 points in the latest public opinion polls, was under no great political pressure to respond.

"I want to state America's goal," he said. "By 1999 – Nato's 50th anniversary and 10 years after the fall of the Berlin Wall – the first countries we invite to join should be fully-fledged members of Nato."

The alliance, he went on, "will remain open to all of Europe's emerging democracies who are ready to shoulder the responsibilities of membership. No nation will be automatically excluded. No country outside Nato will have a veto."

Mr Clinton also called for a formal co-operation agreement between Nato and Russia, over and above the Partnership for Peace programme, which provides for increased military contacts. "We should set up a mechanism for regular Nato-Russia meetings at all levels," he said."

Russia would "be among the beneficiaries" of a larger and strengthened alliance, capable of "reducing rivalry and fear" throughout Europe.

Administration officials have acknowledged some uncertainty about the Russian reaction, though last week's visit to Moscow by Mr William Perry, the secretary of defence, was partly designed to clear the way.

Queue for Nato, Page 2; Editorial Comment, Page 13

Denmark to block EU attack on Cuba trade laws

By Caroline Southey in Brussels and Hilary Barnes in Copenhagen

The European Union's efforts to retaliate against Washington's punitive anti-Cuba trade laws suffered a setback yesterday when Denmark said it would veto counter-measures against the US.

Danish officials said Copenhagen would block proposals aimed at protecting EU companies threatened by the Helms-Burton Act because the measures compromised Danish sovereignty. The measures were expected to be agreed by EU foreign ministers in Luxembourg next week.

A Danish diplomat said Copenhagen believed the retaliatory measures did not "fall within EU competence".

The diplomat admitted that Denmark was isolated on the issue.

EU foreign ministers were due to discuss proposals that would allow EU companies to refuse to comply with Helms-Burton and would allow EU companies or individuals to launch countersuits against litigants.

EU officials dismissed Denmark's claim that its decision was based on legal considerations. "This is clearly a political, not a legal, problem," an EU diplomat said.

The Danish government has recently been taken to court by a group of citizens who have accused it of contravening Denmark's constitution by handing too much sovereignty to the EU.

The group is challenging Denmark's signature on the Maastricht treaty which includes a catch-all clause, Article 235, allowing the EU to act on issues not provided for elsewhere.

The EU's proposed retaliatory measures against Helms-Burton have been based on three treaty articles, including 235.

Because of the court case, the Danish government has become more sensitive about the article's use.

The EU's efforts to present a united front against the US legislation have been dogged by legal differences and political reservations.

Germany has objected to provisions allowing companies to claw back losses incurred as a result of the US law. Others have challenged whether the EU, rather than individual member states, has the authority to take action.

A Commission official said Sir Leon Brittan, European trade commissioner, had not given up hope of persuading Denmark to approve the proposals.

Editorial Comment, Page 13

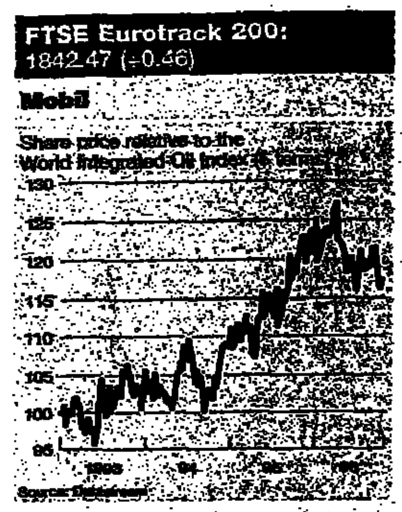
THE LEX COLUMN

Swinging Sally

The Wall Street joke is that there are two large, publicly quoted hedge funds – Bankers Trust and Salomon Brothers. Yesterday's results from Salomon – third-quarter net income fell to \$112m from \$268m in 1995 – enforced the point. For all management's intentions to build the client side of the business, Salomon remains, culturally and in the spread of its business, a trading house.

The curiosity is that markets continue to be surprised by this fact; the shares fell 8 per cent yesterday. Yet earnings volatility is in the nature of the beast. The fact that it was equity and commodity trading, and oil, that hit earnings this time is incidental. Indeed, taken over a longer period, performance has been remarkably healthy; net income for the nine months rose to \$679m, from \$289m in 1995. Meanwhile, management has had some success in growing its agency and corporate finance activities. Recurring income remains modest compared, say, to Merrill Lynch's – hence Salomon's 5.5 price/earnings ratio, compared to 9.7 at Merrill. But given that the shares are only trading at a small premium to book value, value investors might consider them worth a punt.

FTSE Eurotrack 200: 1842.47 (+0.46)



UK cable industry

Cable investors are used to electric shocks. But yesterday's move by Cable and Wireless to splice together its Mercury telecoms subsidiary with three UK cable companies provided a more pleasant tingle. After a jump in share prices all round, the new company – C&W Communications – has an implied value of more than £5bn (\$7.8bn). This puts C&WC on 11 times last year's operating cash flow – a multiple more akin to a sexy media group than a dull telecoms operator.

With 6m homes, C&WC should be able to wring concessions from content providers like BSkyB. Total cost savings of up to £150m a year will be reinvested in cheaper services. And unlike British Telecommunications, it will be able to offer a comprehensive package of phone and media services under a single brand and on a single bill. Financially, profitable Mercury should be able to use the cable companies' tax losses while its cash flow will help to fund their capital programmes.

Such consolidation was overdue, but this deal does not itself change the industry's fundamentals. British consumers have proved remarkably impervious to the attractions of cable television and even the world's best marketing will take time to raise penetration rates from their current 20-25 per cent. Equally, BT remains a powerful competitor. Perhaps that is why C&W's new chief executive, Mr Dick Brown, was so keen to stress the open-ended nature of the new alliance. If he could persuade another big international phone company to join it would become a more powerful grouping.

Even so, C&W emerges as the real winner from this deal. In return for less than £400m of cash upfront it gets management control of a £5bn company and Mercury gains the local access that could ensure its long-term survival. The implied £2.9bn valuation of Mercury, roughly 17 times forecast earnings, is also rather fancy. Just as importantly, after two imaginative deals in as many weeks, Mr Brown's commitment to unlocking value at C&W cannot be doubted.

Novartis

Roll on Novartis. Yesterday's nine-month sales growth from Swiss drug companies Ciba and Sandoz was deeply unimpressive at 2 per cent and 8 per cent respectively. By contrast, the UK's SmithKline Beecham managed 14 per cent. Happily, that has ceased to matter. US regulatory approval for the merger of the two Basle-based groups into Novartis, the world's second largest pharmaceuticals group, is only weeks away and investors have their minds firmly fixed on the SFr1.8bn (\$1.5bn) of cost savings promised by the deal. Those savings should produce a one third lift in earnings in 1997 – excluding integration charges – and sustainable growth of 15 per cent or more thereafter. That matches the best of the international peer group, including Merck, Pfizer and Zeneca. But Novartis is still valued at a much more lowly rating. On current forecasts it is trading at just over 15 times forecast 1998 earnings, compared to 19 times for Merck and Pfizer and more than 20 for Monsanto, which has a similar mix of healthcare and agrochemical businesses. After jumping a fifth when the deal was announced in March, shares in Ciba and Sandoz have more or less tracked the Swiss market. They still look cheap.

Mobil

At first sight, Mobil's third-quarter result – a 10 per cent drop in earnings, when Texaco has chalked up a 50 per cent increase – looks poor indeed. And "unfavourable market conditions", the company's excuse, looks particularly limp when its competitors are doing far better and the oil price is high. But strip out some one-off oddities and the result does little more than confirm Mobil's relative lack of gearing to oil prices, the result of heavy presences downstream and in gas. At a time when the Brent crude price is more than \$25 a barrel, this looks much more like a strength than a weakness.

Nor is there any sign of the company's enthusiastic cost-cutting losing momentum. The big strategic question lurks elsewhere – in the company's future production profile. A disproportionate chunk of Mobil's output comes from the Arun gas field in Indonesia, where production will soon start to decline. That, doubtless, is one reason why capital expenditure elsewhere has been stepped up smartly. This is not itself a bad thing, but the risk is obvious: that to keep up respectable production growth, Mobil could end up splurging too much money for lousy rewards. To be fair, there is little evidence of that so far – but investors need to be wary of pressing the group to pursue growth at the expense of returns. After all, if growth is really what Mobil or its shareholders want, a much less risky solution would be simply to merge with fast-growing British Petroleum.

Additional Lex comment on Reckitt and Colman, Page 22

Electronic airline tickets

Continued from Page 1

encode passport details and an identifying hand print on a credit card or possibly some form of airline frequent-flyer card.

On arrival at an airport, passengers will swipe the card through a machine and place their hands on an electronic reader – a process that the company claims will take no more than 15 seconds.

Although similar systems operate at airports in the US and Canada, IBM says its system could become standard at airports around the world within five years.

Bermuda airport, which handles 500,000 passengers a year, will start using the system next year. IBM is understood to have held preliminary talks with a number of other airports, including London Heathrow and Frankfurt, which handle far greater volumes of traffic.

Salomon

Continued from Page 1

dramatic. Salomon also lost money at Basis Petroleum, its oil refining and marketing business. The loss stretched to \$46m in the third quarter from \$13m in the second quarter.

"While quarter-to-quarter trading results are variable, overall Salomon results for the first nine months... are very strong," said Mr Robert Denham, Salomon's chairman and chief executive officer.

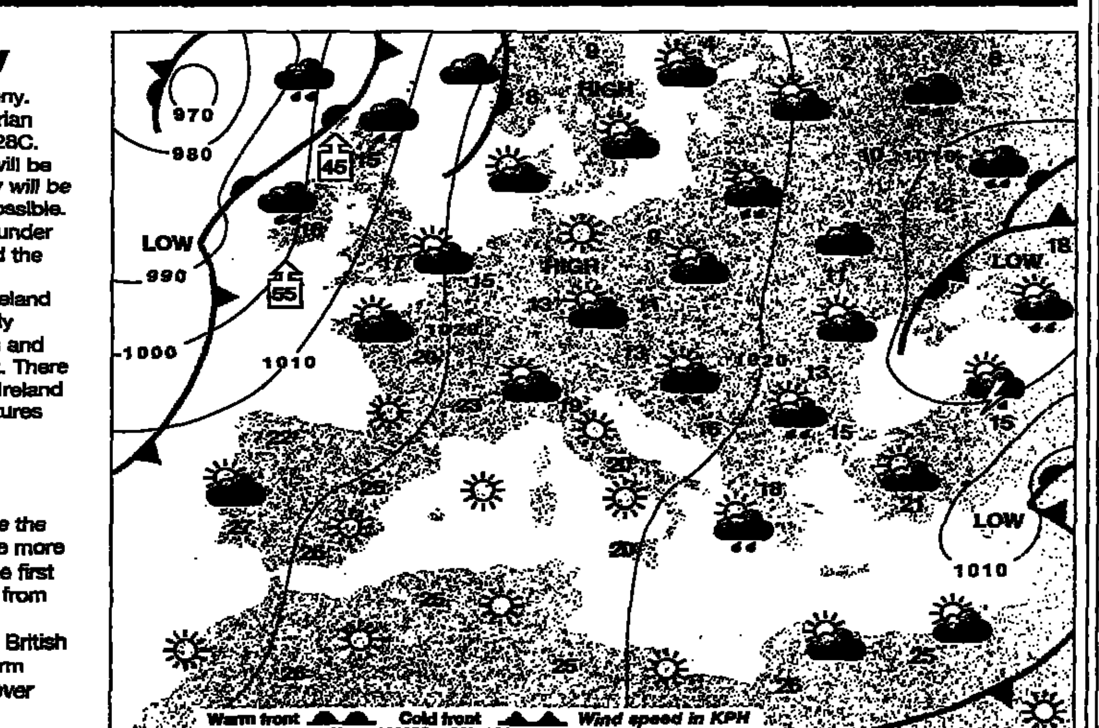
FT WEATHER GUIDE

Europe today

Most of Europe will be sunny. Temperatures over the Iberian Peninsula will rise to 25C-28C. The Mediterranean coast will be generally sunny but Turkey will be cloudy and showers are possible. Italy will be rather cool. Thunder showers will persist around the Black Sea. A deepening depression just south of Iceland will produce harsh southerly winds over the British Isles and along the Norwegian coast. There will be abundant rain over Ireland and Scotland but temperatures will be above the seasonal average.

Five-day forecast

High pressure will dominate the continent but it will become more unsettled from Friday as the first in a series of fronts arrives from the west. Winds will be temporarily lighter over the British Isles but strong gale or storm force winds are expected over Scotland on Sunday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	17	Caracas	fair	31	Faro	sun	27	Madrid	sun	26	Rangoon	fair	33
	Celsius		Belfast	rain	16	Cardiff	rain	15	Frankfurt	sun	13	Majorca	sun	23	Reykjavik	rain	10
Abu Dhabi	sun	33	Belgrade	shower	10	Casablanca	sun	26	Geneva	sun	15	Malta	sun	25	Rio	cloudy	25
Accra	cloudy	30	Berlin	sun	10	Chicago	rain	12	Gibraltar	sun	27	Manchester	cloudy	18	Rome	sun	20
Algiers	sun	23	Bermuda	fair	25	Cologne	sun	13	Glasgow	rain	16	Manila	shower	31	S. Frsco	fair	19
Amsterdam	fair	14	Bogota	thund	18	Dakar	fair	31	Hamburg	sun	10	Melbourne	fair	27	Seoul	sun	20
Athens	shower	18	Bombay	fair	33	Dallas	sun	23	Helsinki	cloudy	6	Mexico City	fair	21	Singapore	shower	31
Atlanta	cloudy	22	Brussels	fair	14	Delhi	fair	32	Hong Kong	fair	28	Miami	fair	28	Stockholm	sun	8
B. Aires	cloudy	15	Budapest	sun	11	Dubai	sun	33	Honolulu	fair	31	Milan	sun	20	Strasbourg	sun	15
B.ham	cloudy	15	C.hagen	fair	10	Dublin	fair	17	Istanbul	shower	15	Montreal	cloudy	12	Sydney	fair	20
Bangkok	thund	35	Cairo	fair	26	Dubrovnik	fair	16	Jakarta	cloudy	32	Moscow	drzzl	9	Tangier	sun	26
Barcelona	sun	23	Cape Town	fair	18	Edinburgh	rain	15	Jersey	cloudy	14	Munich	sun	11	Tel Aviv	thund	24
									Karachi	sun	35	Nairobi	fair	28	Tokyo	fair	20
									Kuwait	sun	34	Naples	fair	18	Toronto	rain	14
									L. Angeles	sun	23	Nassau	fair	29	Vancouver	rain	10
									Las Palmas	sun	25	New York	fair	19	Venice	sun	16
									Lima	cloudy	20	Nice	fair	20	Vienna	shower	11
									Lisbon	fair	26	Nicosia	thund	22	Warsaw	fair	8
									London	cloudy	17	Oslo	cloudy	6	Washington	cloudy	23
									Luxbourg	fair	13	Paris	fair	18	Wellington	shower	14
									Lyon	sun	16	Perth	shower	20	Winnipeg	cloudy	8
									Madeira	fair	24	Prague	fair	9	Zurich	sun	12

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday October 23 1996

IN BRIEF

Lagardère in TBS deal with Daewoo

Lagardère of France and Daewoo of Korea will share control of Thomson's digital television division, while dividing up most of the state-owned electronics group between themselves. The two groups revealed that they intended to turn Thomson Broadcast Systems into a 50/50 joint venture with Lagardère providing the management. Page 16; Lagardère profits jump 38% in first half, Page 18

Tenneco to take $400m charge

Tenneco, the US conglomerate, is to take a charge of up to $400m to cover the cost of spinning off its Newport News Shipbuilding division and merging Tenneco Energy with El Paso Energy. The charge will be taken in the quarters in which the transactions are completed. Mr Dana Mead (left), chairman, said more than $200m was associated with restructuring $4bn in debt. Page 21

Marlboro strength drives Philip Morris

An 11 per cent increase in sales of its top-selling Marlboro cigarettes helped Philip Morris, the US tobacco and food group, to lift third-quarter net profits 14.9 per cent to $1.6bn. Page 20

Pasminco warns on profits outlook

Pasminco of Australia, the world's biggest zinc producer, warned it would have difficulty matching its 1995-96 profits of A$40.8m (US$32.3m) in the current financial year unless the Australian dollar price of lead and zinc, its main products, improved. Page 22

Reckitt & Colman to hand back £152m

Reckitt & Colman, the UK maker of household products, proposed a one-off dividend of 35.65p a share worth £152m ($237.1m) out of its foreign earnings. It will also consolidate its shares on the basis of 19 new ones for every 20 held. This will enhance earnings per share to the same extent as buying back 5 per cent of its shares at 713p each. Page 22; Lex, Page 22

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Vag	569.4	+	5.4	BIC	760	+	10
Falls				CGIP	1179	+	23
Allianz	1300	–	17	**Falls**			
Goldschmidt	845	–	14	Damart	4200	–	125
Linde	955	–	13	Fonc Lyon	545	–	13
PWA	218	–	11.5	Labinal	763	–	26
Wella	916	–	9	SGS-Thomson	275	–	17
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Cable Wireless	22¼	+	1½	Gunze	635	+	15
Fruit of Loom	33⅛	+	1¾	Kanematsu	533	+	27
Verifone	34½	+	1⅞	**Falls**			
Falls				Daicel Chem	579	–	26
Dig Equip	29¼	–	5⅛	Ihara Chem	785	–	18
Oak Inds	29⅞	–	3⅛	Inax	965	–	33
Pediatrix Med	39	–	4¼	Toyo Kanetsu	465	–	21
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				**Rises**			
Cable & Wire	467	+	26	Asia Secs	2.3	+	0.22
Denby Grp	245	+	17	Orient Tlcm	2.6	+	0.2
Gen Cable	197	+	19	Silver Grant	3.2	+	0.52
TeleWest	135	+	12	**Falls**			
Falls				Lai Sun Intl	11.35	–	0.5
Low & Bonar	483½	–	73½	Lai Shing Hng	5.3	–	0.3
Seton Health	488½	–	32	Rd King Infra	6.35	–	0.25
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				**Rises**			
Sciatrax	26.5	+	1.45	Book Club	48.75	+	4.25
Spectrum Sig	11.9	+	1.4	Interlife	64.0	+	5.5
Falls				Kiatnakin Fin	52.5	+	3.5
Dig Process	11.5	–	1.25	**Falls**			
El Eco Logic	6.8	–	2.35	Jutidis Dev	44.0	–	4.75
Hummingbird	41.4	–	2.1	Kiang Huat	91.0	–	10.0
MOSI Mobile	18.0	–	0.9	Utd Flour	44.0	–	4.75

New York and Toronto prices at 12.30pm.

Nichiei Finance files for bankruptcy

By William Dawkins in Tokyo

Nichiei Finance, a Yokohama-based finance company, yesterday filed for bankruptcy with liabilities of Y991.4bn ($8.8bn), the largest corporate collapse in Japan's post-war history.

This is the fourth of Japan's non-bank financial institutions – lenders without a banking licence – to succumb this year to bad loans on property bought during the 1980s bubble in property prices. Nichiei estimated yesterday that its bad debts were less than a third of total liabilities, but the fiasco is a reminder that Japan's financial system is littered with unexploded bombs.

Property values have fallen by 50-80 per cent from the 1992 peak, depending on the area, and some real estate agents now see signs that the worst might be over.

Nichiei Finance, listed on the second section of the Tokyo stock exchange until its suspension yesterday, will ask its main bank backers to give up loans totalling Y170.8bn, said Mr Masuzo Kurasuko, senior managing director. On top of that, the group has guaranteed Y820.6bn of debts on behalf of other creditors, of which Mr Kurasuko estimated Y100bn could not be repaid.

Nichiei Finance's bad debts are just under Y300bn, enough to embarrass but not inflict lasting damage on the financial health of its founders and main lenders, Dai-Ichi Kangyo Bank, Asahi Bank and the Bank of Yokohama, who are also shareholders. Technically, it has filed for corporate arrangement – similar to a UK-style voluntary arrangement – under which individual debt repayments will be suspended while the company seeks to repay loans under the court's supervision.

The three banks restructured their loans to Nichiei Finance in 1993 and 1994, but a Y1.4bn net loss in the year to March sparked market speculation of its impending demise, denied by the company until yesterday.

Ms Alicia Ogawa, financial analyst at Salomon Brothers Asia, said Nichiei Finance's collapse was a positive sign that its main banks felt confident enough to tackle the problem. Their agreement was required for Nichiei Finance to file for bankruptcy.

However, analysts voiced concern about knock-on effects of Nichiei Finance's collapse. Its loan guarantees will now be worthless to the ultimate lenders.

As of last March, DKB had Y56.9bn in loans to the company, Asahi had Y32.2bn and Bank of Yokohama Y20bn. They said yesterday they were discussing how to account for the losses.

Nice Nichiei, Nichiei Finance's parent, had its shares suspended yesterday. It said yesterday it would take a Y12.3bn special loss in the six months to September and drop its dividend this year. That will leave it with a Y10.7bn annual net loss, against its net profits forecast of Y700m. Mr Takeo Uchino, Nice Nichiei's managing director, said the deficit would be funded from reserves.

Saab scraps plans for small car

By Hugh Carnegy in Stockholm

Robert Hendry, Saab chief executive pictured above in a Saab 900 convertible, has set aside plans for a smaller car to add to the company's two-model range

Saab Automobile, the struggling Swedish carmaker which is managed and half-owned by General Motors of the US, has shelved plans to extend its model range. Instead, it is to concentrate on its existing cars and a new model launch next year.

Mr Robert Hendry, the GM executive who took over as Saab chief executive in August, has set aside plans to produce a smaller car to add to the basic two-model range while the company tries to *reverse the losses that have* plagued it for most of the years since GM bought a 50 per cent stake in 1989.

Saab, co-owned by Investor, the main investment vehicle of the Wallenberg empire, currently produces the mid-sized 900 and luxury 9000 models. A replacement for the 9000, which is more than 10 years *old, is due to be launched next* year. Saab will keep the old 9000 in production for some time after the new car is on the market.

Mr Keith Butler-Wheelhouse, Mr Hendry's predecessor who is now at the UK's Smiths Industries, said Saab would need to invest in a third, smaller model to achieve the *big volume increase needed for* long-term profitability. But Mr Hendry has indefinitely postponed any such planning.

Saab posted losses of SKr428m ($64.7m) in the first half, adding to net accumulated losses of about SKr10bn since GM bought into the company. In June, GM and Investor pumped in SKr3.48bn in a *refinancing package – on top* of the SKr8bn already provided by the two since 1989.

The company said its aim to increase sales by 50 per cent by 2000 – from the current 100,000 cars – was based on its present model plans. The capital injection is to be spent mainly on the launch of next year's new car – which will *include an estate version to be* added in 1998 – and the building up of marketing in the US, UK, Italy, France and Germany, its main markets.

Saab is also working to maximise cost savings through its links to GM.

Mr John Lawson, motor industry analyst at Salomon Brothers in London, said it *was realistic for Saab to* achieve volumes of 150,000 based on two successful models. Adding a third model would be very expensive.

Telekom debts 'offer tax efficiency'

By Michael Lindemann in Frankfurt

Concern about Deutsche Telekom's high debt levels may be misplaced because the debt is surprisingly tax efficient, analysts at BZW, the investment banking arm of Barclays Bank, said yesterday.

However, they argue that on key indicators such as dividend yield, Deutsche Telekom compares badly with rivals including British Telecommunications and the Dutch group KPN. Investors would do better to buy stock in these companies and persuade their "management to gear up by paying extra dividends, buying back stock or other progressive financial measures", BZW concluded.

BZW's report is regarded as a rare independent analysis. It is one of the few leading investment houses to have stayed outside the consortium marketing Deutsche Telekom's shares.

In its second report on what is expected to be one of the world's biggest initial public offerings, BZW also revises its forecasts for the value of the company's shares, marking *them up from an initial* DM10-DM22 a share to DM15-DM25.

As Deutsche Telekom executives began a series of roadshows in 30 cities around the world, the shares slipped in the unofficial "grey" market to between DM33.9 and DM34.1, down from a close yesterday of DM35.

Yesterday's prices still represent a considerable premium on the DM25 to DM30 range between which the shares will be priced next month. But they are down from a high of DM39, reached on Monday shortly after the company announced the offi*cial price range.*

Much of BZW's first report, issued in September, focused on Deutsche Telekom's net debt of DM98bn ($66.2bn), which makes it the 24th largest debtor in the world.

While the company argues that it was forced to run up such high debt levels to finance investment in new technology and networks in eastern Germany, the report suggests that Deutsche Telekom has, in the process, stumbled on a technique which may have important implications for other telecoms companies.

Record issue stirs investors, Page 18-19; Observer, Page 13

Digital plunges into red in first term

By Louise Kehoe in San Francisco

Digital Equipment reported much wider than expected losses for its first fiscal quarter, raising concerns about the computer group's ability to restart its stalled turnround.

After reporting six consecutive profitable quarters, Digital plunged back into losses in the June quarter. First-quarter results continued the downward trend. Losses for the first fiscal quarter, ended September 28, were $66m, or *48 cents a* share, compared with net income of $48m, or 26 cents a share in the same period last year.

Wall Street analysts had been anticipating a more modest loss of about 14 cents a share and Digital's shares fell sharply yesterday to trade at $31⅝ in mid-session, down 7 per cent from Monday's close of $34⅜. Technology stocks were generally weak yesterday but analysts linked the sell-off to profit-taking, rather than Digital's results.

Revenues for the quarter were $2.9bn, down 11 per cent *from $3.3bn in the same period* last year. Mr Robert Palmer, chairman and chief executive, blamed the shortfall on the disruptive effects of a sales-force reorganisation during the quarter.

The reorganisation was necessary, he said, to increase direct contact with customers. He acknowledged that the changes "took longer and were more difficult to implement and more distracting to the sales force", than expected. "As a result our selling ability was temporarily reduced and our product revenues were significantly affected."

"*We clearly have some fun*damental sales and marketing issues to resolve in order to achieve competitive levels of profitability and growth," said Mr Palmer. The results were "very disappointing", he said.

However, Mr Palmer remained convinced that Digital would benefit from the sales reorganisation in the long term. "Our objective remains to return our company to a position of industry leadership."

Mr Palmer said despite the first-quarter problems he was optimistic Digital could return to profitability in the current *quarter.*

Product revenues for the first quarter were $1.5bn, compared with $1.8bn in the first quarter of last year. Sales of Digital's flagship Alpha computers, which had been growing at double digit rates, slowed to a 4 per cent growth rate in the quarter.

Digital faced intensifying competition following the recent announcement of systems based on fast new microprocessor chips.

Digital's workforce stands at about 57,000 employees, down by about 2,000 since the beginning of the quarter. It plans to *further reduce its workforce* by about 4,000 people by the end of the fiscal year.

Strong US sales help SmithKline lift profits 20%

By Daniel Green in London

Growth in drug sales, particularly in the US, helped SmithKline Beecham, the UK's second-largest pharmaceuticals company, increase third-quarter pre-tax profits 20 per cent to £374m ($583.4m).

Sales rose 15 per cent to £2bn, with trading profit growing 16 per cent to £394m. The third-quarter dividend is 4p a share, up from 3.2p.

SmithKline said operating margins had been maintained in spite of a 25 per cent rise in spending on research and development.

"These are good figures but in line with expectations," said Mr Ian Smith, analyst at *Leh*man Brothers, the stockbroker. He forecast full-year pre-tax profits of £1.59bn. The shares rose 2p yesterday to 795½p.

The company's star performer was US pharmaceuticals sales, up 33 per cent.

Mr Jan Leschly, chief executive, said European growth, by contrast, had been patchy as a result of government efforts to control healthcare spending. In France, for example, the price of one of the company's antibiotics fell 40 per cent.

US sales were lifted especially by the good performance by *the antidepressant* Paxil, sold as Seroxat in the UK and some other markets. Seroxat/Paxil sales rose 54 per cent to £189m.

Other new products, which SmithKline defines as those launched less than five years ago, also did well. Sales of Relafen/Relifex, an anti-inflammatory drug, rose 33 per cent to £85m, and Kytril, for *side-effects of chemotherapy*, was up 33 per cent to £46m.

Jan Leschly: health cuts in Europe have hit sales

In consumer healthcare, sales rose 11 per cent with trading profit up 5 per cent. Profit margins were depressed by high spending on promoting the anti-smoking products Nicoderm and Nicorex.

Mr Leschly said heavy television advertising had pushed sales of these products to "about $12m (£7.6m) a week". But this level of sales would not last.

Over-the-counter product sales rose 9 per cent. Oral care products climbed 23 per cent and nutritional healthcare sales 7 per cent.

In the clinical laboratories unit, sales edged 1 per cent ahead, with trading profit up 16 per cent, assisted by "vigorous implementation of cost management measures".

Sales growth at Ciba and Sandoz disappoints, Page 17; US pharmaceutical groups' results, Page 21

Lagardère, Daewoo to share Thomson unit

By David Buchan in Paris

Lagardère of France and Daewoo of Korea will share control of Thomson's digital television division, while dividing up most of the state-owned electronics group between themselves.

At separate press conferences yesterday, Lagardère and Daewoo said they planned to turn Thomson Broadcast Systems into a 50:50 joint venture, with Lagardère providing the management.

Both Lagardère and Daewoo sought to dispel the impression in France that the symbolic FFr1 they are paying for the defence and consumer electronics businesses is a bargain, given that the French state is injecting FFr11bn ($2.11bn) as a farewell recapitalisation to offset Thomson's heavy FFr25bn debt.

One union at Thomson yesterday called the sale of Thomson-CSF to Lagardère "a financial swindle and an industrial scandal". Unions at Multimedia have protested about their company's sale to a foreigner.

But the real price that each company is paying remained unclear, because both said the French government had forbidden them from revealing details of their bid until the official privatisation committee endorses the deal. The ban extends to the exact destination of the FFr11bn recapitalisation.

It is understood that most of the FFr11bn will indirectly go to Daewoo in recognition of the fact that Multimedia accounts for nearly FFr15bn of Thomson's FFr25bn debts, and that its losses have increased in this year's first half.

Mr Bae Soon-Hoon, Daewoo chairman, confirmed his company would pick up some of Multimedia's debt – believed to be FFr4bn –FFr5bn – and stressed his commitment to making France the centre of Daewoo's worldwide plan to invest FFr13bn and create 9,000 jobs over the next five years.

He believed most Multimedia employees would be happy to join a group that would not only secure their jobs but create new ones, especially in TV component manufacture in France. He also indicated an interest in forging closer links with the SGS-Thomson semiconductor business. Lagardère plans to sell Thomson-CSF's 17 per cent stake in SGS-Thomson, but is committed to giving French state shareholders first option.

For his part, Mr Philippe Camus, Lagardère finance director, assured the acquisition would not raise Lagardère's debt-to-equity gearing beyond 0.33.

Sagem, the French electronics company, yesterday denied a press report that it was trying to mount a belated "white knight" challenge to Daewoo.

Turnround in financial operations lifts profits

By David Buchan

Lagardère yesterday reported a 38 per cent jump in first-half net profit to FFr409m ($78.8m), up from FFr296m a year earlier, chiefly due to better defence business, provision changes and lower financial charges.

Total first-half sales rose marginally, from FFr25.1bn in the 1995 to FFr25.4bn, with operating profit rising in line, from FFr976m to FFr1.08bn. Consolidated net profit, before payment to minority shareholders, increased from FFr512m to FFr583m.

The biggest change came in a turnround on financial operations, negative to the tune of FFr45m in the first half of 1995 but FFr103m in the black in the first half of this year. This was due to lower interest rates, and the reincorporation into the accounts of earlier provisions made for asset sales this year which turned out better than the group had originally estimated.

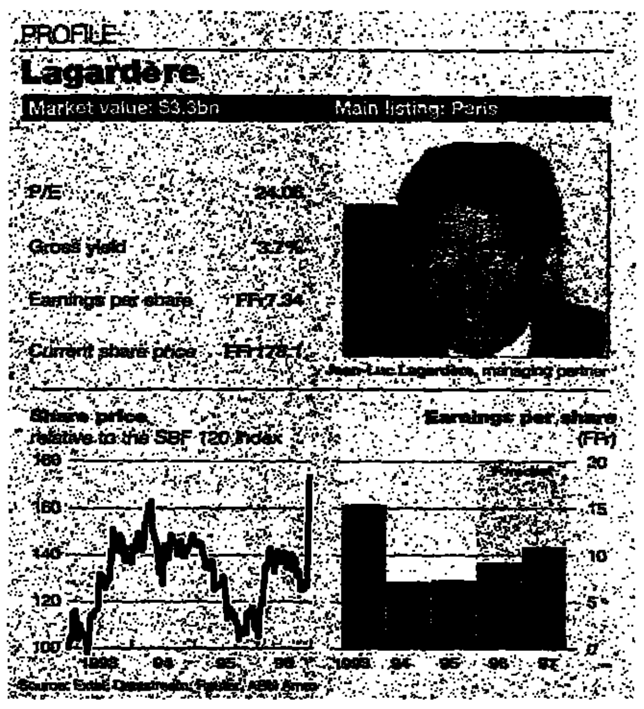
Turnover by the "high technology" defence, space and telecommunications business – destined to be merged with Thomson-CSF – increased from FFr7.33bn in the first half of 1995 to FFr7.65bn.

Because of improved cash flow from defence contracts, pre-tax profit in this sector rose from FFr301m to FFr458m.

Mr Philippe Camus, finance director, stressed that the acquisition of Thomson would entail "no splitting up nor asset sales". The communications and publishing division, hitherto the dominant part of the group, saw operating profit fall 7.5 per cent despite a 2.1 per cent rise in sales.

The much smaller car division saw pre-tax profits decline to FFr122m on sales of FFr1.87bn.

This was essentially due to lower sales of the Espace, which Lagardère makes for Renault.



Fiat sells insurance interests

By Robert Graham in Milan

Fiat, the Turin-based automotive and industrial group, yesterday announced it had agreed the L325bn ($212m) sale of finance and insurance business assets to Generali, Italy's main insurer.

The deal is part of Fiat's strategy to raise cash to cushion 1996 results from the impact of a fall in the domestic car market, which accounts for almost 45 per cent of group car sales.

In September, Fiat announced it did not expect trading activities to sufficiently match 1995 end-year results, but said profits would be sustained by extraordinary sales.

The principal asset to be bought by Generali in the acquisition – being managed by Mediobanca, the powerful Milan merchant bank also linked to Generali – is a 95 per cent stake in Prime, one of Italy's 10 largest group of investment funds. Prime operates 17 investment funds with assets totalling L5,300bn.

While allowing Generali to move further into personal savings, the Fiat divestment also gives the Trieste-based insurance group a further slice of insurance business. The deal involves buying a 40 per cent stake in Prime Augusta Vita, an insurance company 18 per cent-owned by Prime, 67 per cent by Fiat and 15 per cent by Credito Agrario Bresciano (Cab).

EUROPEAN NEWS DIGEST

Olivetti files suit against ex-chief

Olivetti, the troubled Italian information technology and telecoms group, yesterday filed a L100bn ($65m) damages suit against Mr Renzo Francesconi, who resigned in September after being chief executive for a month. Olivetti alleges Mr Francesconi caused serious damage to the company by calling into question the accuracy of the group's accounts – statements that forced its shares to be temporarily suspended after heavy falls.

He is accused of deliberately breaching company confidentiality by briefing journalists and spreading alarm about Olivetti.

Turin magistrates are investigating Olivetti's past accounts, and both Mr Carlo De Benedetti, former chairman, and Mr Francesco Caio, another former chief executive, are under investigation for alleged false reporting of company accounts. *Robert Graham, Rome*

BA offer on Air Liberté

British Airways would immediately invest FFr440m ($74.44m) in the capital of Air Liberté if its FFr25m offer for the private French airline were successful. The disclosure was made yesterday by Mr Robert Ayling, BA chief executive, in an interview published by Le Figaro, the French daily newspaper. It comes about a week after the UK airline tabled its takeover bid to the French carrier's administrators.

In remarks apparently aimed at French doubts about the possible takeover, Mr Ayling said he wanted Air Liberté to remain "a French company with a French identity, French employees and French managers". He said BA had guaranteed all the airline's domestic routes, including those to the Antilles and Réunion.

Under BA's plans, Air Liberté and TAT European Airlines, its existing French subsidiary, would become profitable in three years. The purchase of Air Liberté was a good opportunity to make the group's investment in TAT bear fruit, given the way the two airlines' networks complemented each other. They were only in competition on the Orly-Toulouse and Orly-Marseilles routes. Acquiring Air Liberté would lift BA's share of French domestic traffic to 22 per cent. *David Owen, Paris*

ABB advances 24%

International electrical engineering group ABB Asea Brown Boveri announced net profit of $809m for the nine months to September, up 24 per cent from last year. Analysts expected ABB to post a profit in the range of $800m-$826m. Group operating earnings after depreciation increased by 4 per cent to $2.1bn. ABB said the group tax rate in the period fell from 42 per cent to 40 per cent. Revenues for were $24.08bn, up 3 per cent on last year's $23.32bn.

Group profits improved at all levels, based on productivity gains, increasing low cost manufacturing in emerging markets, and other cost cutting programmes. This was despite strong competition for new power equipment, higher material costs, and a lower contribution from transport activities.

It said orders received on a comparable basis, excluding its Adtranz rail joint venture with Daimler-Benz, rose 7 per cent in the period, but including its stake in Adtranz, orders received rose from $25.29b a year earlier to $25.44bn. The increase in orders was led by several large power generation contracts in the first-half. ABB said the Bakun dam order was not yet reflected in the group's orders received. *AFX News, Zurich*

RWE sees telecoms venture at break-even by 2000

By Wolfgang Münchau in Frankfurt

RWE, the German energy and industrial conglomerate, expects its telecom joint venture with Veba and Cable and Wireless to break even by the year 2000.

Mr Dietmar Kuhnt, chairman, said he expected to sign a formal agreement with Veba and C&W before the end of the year.

The new grouping would aim for an eventual market share of more than 10 per cent, and would target business and affluent private customers of Deutsche Telekom, after the German telecommunications market is fully liberalised in 1998, Mr Kuhnt said.

Earlier this month RWE abandoned a grouping made up of Viag and British Telecom, switching to the rival Veba-C&W alliance.

Industry analysts regard the Veba-RWE-C&W team as one of the strongest challengers to Deutsche Telekom, along with another recently-formed grouping, made up of Mannesmann, the engineering conglomerate, and Deutsche Bahn, the railway operator.

Mr Kuhnt forecast that full-year net earnings would exceed the DM1.2bn ($1.8bn) achieved in the year to end-June 1996, which were 10.1 per cent higher than in the previous year.

The results included losses of DM75m in start-up costs for the telecommunications operations.

Outlining the company's long-term strategy, Mr Kuhnt said: "We want to get into growth markets. Since we have 83 per cent of our turnover domestically, we looking abroad to achieve higher growth. We want to be more international."

The company's desire to increase its foreign earnings comes against the backdrop of energy liberalisation both in Germany and in the European Union as a whole. Mr Kuhnt said the company intended to expand its position as Europe's leading private-sector energy supplier.

Like other German companies, RWE is cutting staff and this year plans to match last year's reduction of 4,500 employees, not counting acquisitions.

Earnings per share last year went up from DM2.68 to DM2.95. The dividend per share went up by 10 pfennigs to DM1.50.

RWE is among the most diversified German conglomerates. In the last financial year, it achieved total turnover of DM65.4bn, up 2.9 per cent.

The oil and chemicals division was the largest with sales of DM24.2bn, followed by energy, at DM21.3bn. The company also has interests in plant engineering, machine tools, construction, and mining and environmental control.

Mr Kuhnt said the acquisition of Linotype-Hell by Heidelberger Druckmaschinen, RWE's printing equipment subsidiary, was proceeding according to plan.

The deal is awaiting Federal Cartel Office approval.

Telekom privatisation, Pages 18 & 19

EUROPEAN NEWS DIGEST

Metro sales show stagnant market

Metro, the German retailer formed from the merger of Kaufhof and Asko Deutsche Kaufhaus earlier this year, said group sales amounted to DM45.15bn ($29.35bn) in the nine months to September. The group provided no comparative figure. Mr Klaus Wiegandt, chairman, said sales reflected the stagnation in Germany's retail sector, which continued in the third quarter.

But Metro said it still expected pre-tax profit before extraordinaries to reach DM1bn-DM1.1bn for the whole year. He said he did not expect the consumer climate to improve in 1997 and would not be able to escape that trend. As a result, it would downgrade its sales forecast for the year.

"From today's standpoint, we cannot estimate how big an effect this will have on earnings. We will try to combat any negative effects via extensive measures to boost earnings and reduce costs," Mr Wiegandt said. He said it was "completely up in the air" how much the extended shop opening hours would generate additional sales in 1997. *AFX News, Cologne*

Mayr-Melnhof in the black

Mayr-Melnhof, the Austrian carton maker, swung to a net profit of Sch101m ($9.34m) in the third quarter of 1996 from a loss of Sch2m in the year-earlier period. For the first nine months, MM reported a net profit of Sch350m, up 54 per cent from Sch227m a year earlier. Full-year earnings will be up sharply from Sch21m in 1995, when an unexpected loss in the fourth quarter forced the company to cancel its dividend. The dividend payment for 1996 is guaranteed, MM added.

Consolidated sales in the first nine months declined from Sch9.6bn to Sch7.9bn because of lower paper prices and increased vertical integration among MM's carton, packaging and recycling divisions. *Eric Frey, Vienna*

Handelsbanken mulls buy-back

Mr Arne Martensson, Handelsbanken president, said the Swedish commercial bank may buy back some of its own shares in a move mirroring a recent redemption by state-owned rival Nordbanken. "I see a buy-back as an alternative. It's our policy to create a return on equity higher than that of the other [Swedish] banks," Mr Martensson told business daily Dagens Industri.

Nordbanken recently bought back its own shares to the value of SKr5bn, and Handelsbanken's over-liquidity would allow it at least to double that amount in a buy-back. However, the bank would first need to be sure that the money could not be used in a better way, such as for acquisitions, Mr Martensson said. "Our aim is to become one of the three largest banks in [each of] Finland, Norway and Denmark. This we can do through small acquisitions and own establishment," he said, adding that this policy had been successful in Finland and Norway, and now it was Denmark's turn.

He repeated that a merger with Swedish rival SE-Banken was not on the agenda. "There are a lot of investigations showing that advantages of scale cease to take effect at a size smaller than Handelsbanken is at present," he said. *Reuter, Stockholm*

TF1 sues Canal Plus

Mr Patrick Le Lay, head of TF1, France's commercial television channel, said his company was suing rival channel Canal Plus over the sports programming to be controlled by the merged Canal Plus and NetHold, a unit of Cie Financière Richemont. In an interview in Tribune newspaper, Mr Le Lay said Canal Plus was infringing an agreement with TF1 over their partnership in the sports channel Eurosport. A suit had been filed with the Paris commercial court, seeking to have the merger between Canal Plus and NetHold blocked or at least to have all NetHold's sports programming excluded from the merger, he said.

NetHold, which merged with Canal Plus on September 6, is part-owner of Italy's Telepiù, which has a digital channel devoted to sport. Mr Le Lay noted Canal Plus would also be gaining control of Supersport channels in Scandinavia, the Netherlands and Belgian Flanders.

He said the merger between Canal Plus and NetHold contravened a 1993 agreement on Eurosport, whereby Canal Plus and TF1 undertook not to set up in competition with their Eurosport channel or take any interest in other channels competing with Eurosport. Mr Le Lay said TF1 was taking legal action as a member of the TPS digital satellite television consortium, due to start operating at the end of this year as a rival to Canal Plus's CanalSatellite Numerique, which has been broadcasting since April.

TF1 is an affiliate of Bouygues. Cie Luxembourgeoise de Télédiffusion and Lyonnaise des Eaux are partners in TPS. *AFX News, Paris*

GN Netcom in US purchase

GN Netcom, a subsidiary of GN Great Nordic, the telecommunications and electrical engineering group, has acquired Unex Corporation, a US manufacturer of lightweight telephone headsets.

The acquisition will make GN Netcom the world's second-largest headsets manufacturer, according to GN. Netcom has about 600 employees and 1995 turnover was about DKr350m ($59.51m). Unex has 115 employees and a turnover of about $15m. *Hilary Barnes, Copenhagen*

Lego opens Korean unit

Lego, the Danish toy construction kit group, today opens a 15,000 square metre production, administrative and warehousing facility worth DKr200m ($34m) at Ichon, about 60km south of Seoul, South Korea was Lego's seventh largest market by sales in 1995.

The company began production in Korea in 1985 and now has 290 employees in the country, including 110 in factory production. The facility at Ichon brings all Lego's Korean activities, except the regional sales offices, under one roof, Lego said yesterday. *Hilary Barnes*

NY probe by SE-Banken

Skandinaviska Enskilda Banken, one of the Nordic region's leading banks, said yesterday it was investigating irregularities in the accounting of income at its New York operations in 1992 and 1993, and said several staff had been re-assigned as a result. It said no "direct losses" had been incurred as a result of the irregularities, which it said involved the deferral of profits from foreign exchange and bond trading from one year to another and transfers between departments.

It said no customer of the bank was involved and there was no evidence or suspicion that employees had personally benefited from the transactions, which were uncovered during tax audits.

The bank said it was not clear if there would be any net charge to the bank as a result, but said the scale of the affair was "not of any material nature". *Hugh Carnegy, Stockholm*

Changes at top of Aga

Aga, the Swedish industrial gas group, said Mr Marcus Storch would step down from his post of chief executive at the end of this year. He will be replaced by Mr Lennart Selander, who is currently head of the group's Latin American operations and has been with Aga since 1973. Aga said Mr Storch would remain on the board. *AFX News, Stockholm*

Sales growth at Ciba and Sandoz disappoints

By Daniel Green

Shares in Ciba and Sandoz, the Swiss pharmaceuticals companies which are in the process of merging to form Novartis, fell yesterday after both revealed third-quarter sales below expectations.

Ciba's group sales rose 2 per cent to SFr16.3bn ($13.5bn), below analysts' expectations of about 5 per cent. The shares fell SFr6 to SFr1,588.

Of the company's three divisions – healthcare, agriculture and industry – the latter performed the worst, with sales down 2 per cent to SFr5.9bn. This was the result of the deconsolidation of sales of the composites business following its merger with Hexcel, the US composites specialist.

Sales in the healthcare side grew 3 per cent to SFr6.1bn, much less than the average growth of large pharmaceuticals companies which have recently reported third-quarter figures.

Ciba blamed generic (unbranded) competition in the US for poor performances from two of its best-selling drugs: Voltaren, an anti-inflammatory, and Lopresor, for high blood pressure.

The company also warned that fourth-quarter sales in the US would be hit by "a new pricing strategy". For the first time, the company raised prices without warning and "as a result, the usual sales due to stockpiling in the fourth quarter will not occur".

The company's agricultural sector was the best performer, with sales up 8 per cent to SFr4.3bn. Ciba said that more acres of crop were being planted, and sales of new herbicides and fungicides had been good.

Sales at Sandoz in the nine months to September rose by 8 per cent, from SFr10.5bn a year ago to SFr11.3bn, figures restated to take account of disposals.

Analysts had expected sales of more than SFr11.5bn and Sandoz shares fell SFr8 to SFr1,492.

Pharmaceuticals sales rose from SFr5.3bn to SFr5.8bn. Sales in the nutrition business, which includes Gerber foods, rose from SFr2.6bn to SFr2.7bn. The company blamed "declining consumer demand in Europe" for the sluggish performance of nutrition.

The third division, largely agricultural products, increased sales from SFr2.6bn to SFr2.8bn.

The company said that, excluding merger-related special factors and barring any unforeseen developments in the financial markets, full-year net profit "should increase substantially".

See Lex

Daniel Vasella, to be president of the merged company *Reuter*

Enso warns on sector recovery as profits tumble

By Hugh Carnegy in Stockholm

Enso, Finland's second largest pulp and paper group, yesterday reported a dramatic fall in profits in the second four months of the year and added its voice to those warning that a hoped-for upswing in the sector had yet to materialise.

Pre-tax profits at Enso – formed last year by a merger of Enso-Gutzeit with Veitsiluoto – plunged in the period to end-August, from FM1.5bn at the same stage last year to just FM362m ($78.7m).

The fall left profits for the first eight months down from FM2.7bn to FM1.3bn. Earnings per share fell from FM8.12 to FM3.42.

The result was broadly in line with market expectations. Enso said there would be a profit in the last four months leaving full-year earnings at "satisfactory" levels. The group's most-traded R share ended yesterday up FM0.60 at FM35.90.

But Enso admitted the prospects for the remainder of the year were "not as bright as they appeared in the spring".

It added: "Entering the autumn, the market has not improved in line with expectations. Although economic growth has started to pick up in western Europe, the impact on the forest industry is being felt more slowly than anticipated. Uncertainty over the prices for market pulp and newsprint could make the market difficult."

Enso also warned a wave of new capacity now coming on stream in the industry was affecting the balance between supply and demand.

Group turnover in the second four months fell from FM9.6bn to FM8.4bn, leaving eight-month sales down from FM18.9bn to FM17.2bn – mainly due to a big fall in prices for sawn timber, pulp and fine papers.

The hardest-hit division was the fine papers unit, which slipped from an operating profit of FM622m in the second four months last time to a loss of FM97m. The loss, which Enso said would continue in the last part of the year, came in spite of a pick up in demand over the summer and price increases in September and October for some paper grades.

Enso said that although demand was firm, new capacity in Europe and south-east Asia could hit prices.

Profits in the timber and pulp division tumbled from FM387m to FM50m, while packaging profits fell from FM510m to FM289m.

In the publication papers division, operating profits rose from FM302m to FM367m despite a small fall in sales. But Enso warned that a period of big rises in newsprint prices had ended and prices had weakened since the start of the year.

Daimler shake-up decision postponed

By Wolfgang Münchau in Frankfurt

The supervisory board of Daimler-Benz has postponed a decision on the company's future organisational structure until early next year.

The move is intended to defuse a lingering dispute between Mr Jürgen Schrempp, chairman of Daimler-Benz, and Mr Helmut Werner, chairman of Mercedes-Benz, Daimler's car and truck unit, which in the last few days has evolved into a public power struggle.

However, a wide-ranging internal reorganisation remains firmly on the agenda.

At issue is a proposal from Mr Schrempp, to end the company's divisional structure, and merge Mercedes-Benz with its parent group. Mr Schrempp, with the backing of the majority of his board members, believes that the overbearing weight of Mercedes within the company no longer justifies the current holding group structure.

At a board meeting last week, Mr Werner was the only director to oppose an in-house reorganisation that would lead to the dissolution of his own company, which is legally separate from Daimler-Benz, even though it is a fully-owned subsidiary.

A merger would increase Mr Schrempp's direct involvement in the operational management at Mercedes' business units. It is expected to reduce Mr Werner's overall influence in the company.

There has been speculation in Stuttgart that Mr Werner may propose his own alternative restructuring plan to the supervisory board. However, Mr Werner is not believed to have tabled a formal proposal at any of the almost one dozen board meetings since August 31 at which the issue has been discussed.

The issue is complicated further by the timing of Mr Werner's contract, which comes up for renewal next year. As a result, the decision on the company's internal organisation is closely intertwined with his personal future.

In a statement, the four-member executive committee of the supervisory board said that "it is envisaged that we decide about the organisational structure and the related personnel matters at an extraordinary session of the supervisory board early next year."

It added that the next meeting of the supervisory board, scheduled for November 6, will not debate the issue. The move is designed to give both sides the opportunity to find a friendly solution.

DEUTSCHE TELEKOM PRIVATISATION

Europe's biggest ever flotation

The Deutsche Telekom privatisation is a key moment in the history of European capitalism. That is partly because of its colossal size. But it is also significant because the German government intends the issue should end German investors' aversion to shares. But does that make Telekom a promising investment? Faced with intensifying domestic competition, laden with huge debts, and burdened with a bureaucratic culture, Telekom must adapt to survive, protecting its local market and diversifying its revenue streams. Financial Times writers analyse the group's prospects and consider whether the offer is good value.


German retail investors have been targeted through a big advertising campaign

Record issue stirs investor enthusiasm

The public offer of shares in Deutsche Telekom seems designed for superlatives. Telekom is the world's third-biggest telecoms company, and will make Europe's biggest IPO. The offer has aroused unprecedented interest among ordinary Germans, and is a bonanza for the investment banks.

The issue is also, on the face of it, an unusual bargain. On Monday, Telekom confirmed a price range for the shares of DM25–DM30 (the final price will be set on November 17).

A grey market in the shares was promptly established, and the price jumped as high as DM39. Even yesterday, with the price drifting back to DM33–DM34, it looked as if the advisers to the issue had not been sufficiently aggressive.

It may not be that simple. As discussed below, the fundamental valuation of Telekom is highly complex. Not all potential investors in the stock have the same priorities, and different valuation techniques give different answers.

The grey market premium seems mainly due to two factors. First, a technical quibble means there may be a temporary shortage of stock. This is because some European stock indices may weight Telekom according to the 1bn shares which it plans to sell eventually, rather than the 500m-odd it is selling now. If so, there will be inflated demand at the outset from indexed funds.

More basically, it begins to look as if Telekom has overdone its marketing to the German public. Indications are that half the entire issue could go to German private investors. Traditionally, Germans prefers bonds to equities. It therefore seems possible that a large part of the stock will be dumped on to the institutions in early dealings, depressing the price.

On Monday, the FT's Lex column gave the view that the shares would be worth buying at DM25, but not at DM30. If that seems too gloomy, there are reasons to support it on a longer view. At the most basic level, it is worth asking how high a priority Telekom will assign to shareholders' interests. The company has a distinguished record in technology. It is less good at keeping its customers happy. As for pleasing shareholders, its experience is obviously nil.

Mr Ron Sommer, the chief executive, comes with an impressive commercial reputation. His years with Sony will have taught him all about satisfying customers' expectations. But Japanese companies, like German ones, are not best known for their focus on shareholder value.

There is perhaps a clue to this effect in Telekom's prospectus. In coming years, the prospectus says, Telekom has five objectives. First is to strengthen its position further in the German telecoms market. Second is to grow abroad. Third is to increase sales, cash flow and earnings. Fourth is to strengthen the balance sheet. The final goal is "to generate attractive returns for its shareholders".

> It is worth asking how high a priority Telekom will assign to shareholders' interests, **writes Tony Jackson**

Then there is the question of the workforce. Telekom has very high wage costs, and is not particularly productive in terms of lines per employee. The workforce has fallen from 230,000 at the end of 1994 to 207,000 today, and is due to fall to 170,000 by the end of the year 2000. However, the squeeze on employee numbers at telecoms companies worldwide is remorseless and continuing. This is due as much to new technology as to the pressures of deregulation.

It is therefore an open question whether Telekom can get its costs down sufficiently in the new world of competition. Its task is made no easier by the fact that half its employees are civil servants; nor by the fact that until the end of 2000, its controlling shareholder will be the government.

The nature of the competitive world which Telekom is entering cannot be clearly discerned. The ending of a monopoly always has unpredictable effects on pricing and volume. As for the competition, the alliances which will confront Telekom in its domestic market are still taking shape.

It is important to recall that the changes following deregulation are not always bad news. In the US, the breaking up of AT&T in the early 1980s and the introduction of competition in long-distance telephony coincided with startling growth in this market. In the event, there was room for everyone.

It is also worth recalling that Telekom has ambitious plans for markets outside basic German telephony. Its overseas plans are described elsewhere. Its domestic operations outside telephony have attracted criticism, not always fairly.

It is blamed for the fact that its dominant business in German cable TV has never made a profit. But cable TV companies are often unprofitable, because of high depreciation charges. What matters is their cash flow: and in the US, lack of earnings has not stopped cable companies being very profitable investments. Similarly, Telekom is criticised for its slowness in developing multimedia services such as video-on-demand. Again, comparison with the US suggests this may be simple prudence. The technology is proving problematic, and the market uncertain. Several US phone companies have scaled down or delayed their multimedia ambitions.

The main inference for investors to draw from all this is one of caution. Telekom's past will be a poor guide to the future. It will certainly face reductions in prices and market share. While it will be at least partly compensated by growth in market volume, this can scarcely be quantified.

But there is a final point to be made in the other direction. While Telekom is unlikely to be a growth stock, the downside risk is correspondingly limited. Germany remains the economic powerhouse of Europe, and its appetite for communications will certainly increase. Experience also suggests that embedded monopolies are remarkably hard to shift.

As a result, Telekom will certainly be a core holding for institutions internationally. While the flotation may or may not be a steal, it will scarcely be a flop either.

■ VALUATION – By Tony Jackson

Finding the right measure

Setting a value on Deutsche Telekom presents a considerable challenge on at least three grounds. First, well over half the issue will go to German investors, who use somewhat different valuation criteria from their counterparts in the UK or US.

Second, UK and US analysts are themselves unsure *on which yardsticks to use.* Third and most fundamental, Telekom is at a turning point in its history. Future earnings, cash flow and dividends are correspondingly hard to predict.

On the first point, the defining characteristic of German investors – who seem likely to buy some 70 per cent of the issue – is their preference for bonds rather than equities. The initial question is therefore how Telekom measures up against the German government bond yield.

This year's dividend is promised by Telekom at DM0.60 per share. Next year, it will double to DM1.20. For German taxpayers, the gross value is some 40 per cent higher again.

The 1997 dividend is *plainly the more relevant for* valuation purposes, since Telekom says it is the basis from which future payments will be increased in line with results. At DM25, the lower end of the offer range, this give a gross yield to German taxpayers of 6.8 per cent. At the DM30 end, the yield is 5.7 per cent.

The yield on the 10-year German government bond, meanwhile, is a touch under 6 per cent. This goes a long way towards explaining the enthusiasm of the German *public for the offer. Not only* is the return more or less in line with bonds, it offers the apparent attraction of earnings and dividend growth.

Non-German investors will prefer to compare Telekom with the German equity market, and to other international telecoms stocks. As for the German market, analysts estimate its average p/e ratio next year at around 14 times.

It appears that Telekom's p/e next year – after an earnings rebound from exceptional charges this year – might be around 13.5 at the lower price of DM25, or 16 at DM30. Given that telecom stocks tend to trade at a slight discount to their home markets, this particular measure would suggest that DM30 is a touch expensive.

When it comes to other telecoms stocks, the picture becomes murkier. There is general agreement that comparing Telekom with non-European telecoms heavyweights, such as AT&T of the US or NTT of Japan, is *unhelpful*. This is largely because Telekom works within a locally regulated environment, and impending changes in EU regulation will do much to determine its prospects.

The crucial question is which yardstick should be used to compare telecoms companies within Europe. There is general agreement that the old-style price/earnings ratio is unsatisfactory. This is mainly because, in such a distinctively pan-European sector, differences *in accounting standards, tax*ation and the cost of capital make earnings figures inconsistent across national boundaries.

The obvious answer is to concentrate on cash flow. The most popular form is the US-derived EBITDA, or earnings *before interest, tax,* depreciation and amortisation. This, in turn, is compared not simply with market value – since EBITDA takes no account of the cost of borrowings – but to market value plus debt, less working capital.

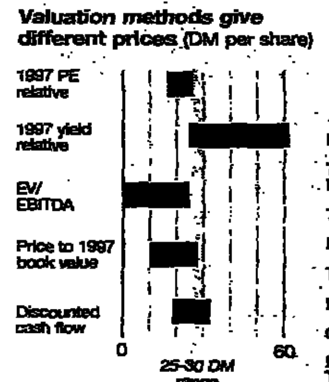
This is known as enterprise value, or EV. The EV/EBITDA multiple, it appears, has shown fairly close correlation with earnings growth for European telecoms companies in the past.

But this approach has *distinct problems. On the* one hand, some analysts argue that comparison with existing EV/EBITDA multiples for other European telecoms companies point to a price range for Telekom so wide as to be meaningless.

In addition, the company forecasts a drop of some 40 *per cent* in its *enormous* debt mountain over the next four years. A ratio based on its present debt level is therefore likely to give a misleadingly high multiple.

If the net effect of those valuation methods is confusing, that is perhaps not surprising. Around the world, the profitability of telecoms companies depends at least partly on government action, and *almost everywhere* government regulation – or *deregulation – is in the pro*cess of change.

Valuation methods give different prices (DM per share)



Source: Analysts Estimates

Yield comparisons (%)

Assuming Deutsche Telekom mid-range price of DM 27.50

	Local bond	Market net dividend	Stock net
BT	7.8	4.1	5.5
Telecom Italia	8.6	2.0	3.7
Telefónica	8.0	3.9	3.7
KPN	5.0	3.1	4.6
TeleDanmark	7.0	3.5	5.0
Portugal	7.9	3.0	2.9
OTE	13.0	3.5	3.8
Deutsche Telekom	6.0	2.6	4.4

Source: BZW Estimates

It therefore follows that valuation comparisons with other telecoms companies, inside or outside Europe, are of limited use. The future value of Telekom depends on factors which are beyond the power of investors or the company itself to predict.

The best that can be said is that the average of the various methods produces a price more or less within the proposed DM25–30DM range.

But as the most sophisticated of Telekom's analysts would probably concede, the price performance over the next few years remains hard to guess, even by normal stock market standards.

■ MANAGEMENT AND CULTURE – By Michael Lindemann

Sales star shines above rest

Those who worked with Mr Ron Sommer at Sony, the Japanese consumer goods group whose European *operations he used to head,* remember him for one particular characteristic.

"Sell, sell, sell. That was the Sony message, anyway – but Ron Sommer learnt it better than anybody else," says a former colleague. "In fact, I don't think he realises just how well he sells himself."

When he took over as chief executive of Deutsche Telekom *18 months ago, Mr* Sommer took on a far more *formidable job of salesman*ship: preparing one of Ger*many's largest* and *most* unpopular companies for a *stock market flotation.*

The 47-year-old, Israeli-born executive has impressed observers. Self-assured, energetic and with an unstuffy manner, he appreciates that the customer matters – a quality not common among senior managers of monopoly operators. Even when confronted with dissent, he is disarmingly reasonable.

However, there is little evidence that the same marketing skills radiate from other members of his eight-strong management board, or from other leading senior executives.

Several analysts were surprised that Mr Sommer did not bring more executives with him from Sony after his 15 years there. Instead, he kept three of the existing board intact, including Mr *Joachim Kröske, the finance* director, who has yet to *develop Mr Sommer's skills* of salesmanship.

Five new board members have been bought in, including Mr Erik Jan Nederkoorn, former chief executive of the Fokker aircraft group, who is now responsible for Telekom's expanding international activities.

> Several analysts were surprised Mr Sommer didn't bring more executives with him from Sony

Many of the other board members remain largely unknown quantities, partly because Mr Sommer and Mr Kröske have hogged the limelight in the run-up to flotation.

It therefore remains unclear how suited they are to running a global telecoms operator about to face strong competition in Europe's largest – and relatively underdeveloped – telecoms market.

Mr Detlev Buchal, the board member responsible for private clients, spent four years before joining Telekom as head of the GZS Gesellschaft für Zahlungssysteme, a company created by about 15 German banks to manage the Eurocard credit card in Germany.

At least once the GZS has been investigated by Germany's anti-trust authori*ties on suspicion of* creating a cartel designed to keep Visa out of the German market.

Mr Nederkoorn brings considerable international experience, but some analysts say he has yet to impress with his understanding of telecoms.

While many younger executives demonstrate the same qualities as Mr Sommer, there remains a swathe of middle management for whom the new philosophy is still alien.

Many came from the Ministry for Post and Telecoms, in which Telekom was still headquartered just four years ago.

What is even worse for a publicly-listed company is that more than 50 per cent of the 207,000 employees are civil servants with jobs for life.

Mr Sommer is quick to point out that if civil servants are managed properly they can be just as productive as private sector employees.

That may be the case, but the philosophy of customer care is one which is alien to them and not easily learnt, *if the countless complaints* about the indifference of *Telekom's employees are* anything to go by.

Horror stories still abound. Not only can new telephones still not be immediately fitted in the centre of east Berlin, employees cannot even give approximate waiting times.

Mr Sommer himself *admits that the company* cannot deal with all the requests for Integrated Services Digital Network, or ISDN, connections. An advertising campaign for this was too successful and Telekom does not have the resources to deal with all the applications.

Delays like this may persuade many users to move to competitors, such as Vebacom or Mannesmann Eurokom, once the market is fully liberalised at the start of 1998.

Mr Sommer, meanwhile, insists he has moved mountains since he took over in May last year. He admits that customer care is not one of the company's strong points, but that much more will be done in the 14 months to liberalisation.

With a workforce still considered unwieldy and unfriendly, he has his work cut out.

■ REGULATION – By Michael Lindemann

Tough game for competitors

Telekom's profitability and cash flow – and therefore its valuation – depend crucially on the regulatory environ*ment in which it operates. In* its early years investors will *know that the regulator* cannot be too harsh on the company, because the government will be selling additional stakes.

What is not in doubt is that at the start of its privatised life the regulatory environment is much to Telekom's advantage.

Most important is the *issue of interconnection* charges. Earlier this month Deutsche Telekom and its would-be competitors – companies such as RWE, Veba, Viag and Mannesmann – crossed swords on this subject.

For weeks the two sides had been talking to each other about these so-called interconnection prices, the fees that Telekom will charge private operators which want to transport their own telecoms services across its network.

Agreement was never likely to come easily, given that interconnection prices are the single most significant cost for private operators. In the event, Telekom offered a price which the competitors rejected.

Mr Wolfgang Bötsch, the minister for post and telecoms, suggested a compromise which the private operators also rejected, arguing that it was too expensive.

Days later they appealed to the European Commission's competition directorate in Brussels in a manoeu*vre carefully designed* to create as much adverse publicity as possible just weeks before Telekom's initial public offering.

How they settle the issue remains to be seen, and the European Commission has so far declined to pronounce on the question.

What is clear, however, is that the new operators in Germany are likely to face *an uphill struggle to secure* a foothold in the telecoms business and *wrest clients* away from Telekom, which still controls about *87 per* cent of the market.

Certainly, the new law which will regulate Germany's fully liberalised telecoms market has competitive hallmarks: an unlimited number of licences is permitted and users have the right to keep their telephone number when switching to a Telekom competitor.

Initially, however, the newcomers' efforts will be hampered by the fact that Mr Bötsch, the present regulator, needs approval from a 32-member committee of parliamentary deputies and representatives of Germany's 16 *Länder*, or states – a long-winded process which favours political rather than commercial solutions.

A new regulatory authority is unlikely to be created until July, and this will give it little time to prepare for full-scale competition just six months later.

Before the German tele*coms market* is fully liberalised, Veba and Mannes*mann*, and much smaller operators such as NetCol*ogne and Colt Telecom* – which received the first two private licences for telecoms services in Germany – will have to negotiate much broader interconnection agreements than the ones discussed this month.

Each of the new operators must negotiate a separate interconnection agreement. *They will not, as* hoped, be able to benefit from an *agreement negotiated* collectively between the new operators and Telekom.

That leaves Telekom with the upper hand.

"It will mean that the process is much slower *than if* there was a published 'rate', and is likely to mean *that* new entrants have to give Deutsche Telekom *some* sense of their strategy (what level of interconnect, where and what level of volume)," says one analyst.

Moreover, the interconnection rates that Telekom offers will not just reflect operating costs – as is usual in other liberalised telecoms markets – but will be allowed to include the cost of past investments such as the telecoms network built in the last five years in eastern Germany at an estimated cost of DM44bn ($28.6bn).

Analysts also regard the price cap – the amount by which telecoms prices must fall – that Telekom will be subjected to as relatively generous. Telecoms charges must fall 6 per cent minus *inflation in the two years* between 1998 and 2000, and *by the same amount* in the two years after that.

While Telekom's *competi*tors will be able to apply only for regional licences – to offer telecoms services around the city of Leipzig, for instance – hopes that they could use these to mount a focused, aggressive attack have been dashed.

If the new operators move into a particularly lucrative market niche with what amounts to "dumping prices", Telekom will be allowed to take advantage of *so-called* geographic de-averaging to cut its own prices in *the same* market without sacrificing revenues in areas where there is little or no competition.

"The ability to geographically de-average was the sin*gle freedom* BT most wanted, but it was one which *was* refused," one analyst said.

While *the legal framework* therefore remains liberal, the *detailed* regulations which will determine the extent *of real competition* suggest it will be harder than *expected to dislodge* Europe's biggest telecoms operator from its *home turf.*

DEUTSCHE TELEKOM PRIVATISATION

The road to market

1989
Legislation splits the Post Office into three operating units: Deutsche Bundespost Telekom, Deutsche Bundespost and Postbank.

1994
June
The Bundestag, [illegible] Bundespost Telekom [illegible] a joint stock company, to be named Deutsche Telekom Aktiengesellschaft.

December 9
Mr Helmut Ricke, Deutsche Telekom's long-standing chief executive, resigns suddenly, furious that the German government has appointed politicians to the non-executive supervisory board.

December 26
Deutsche Telekom appoints Deutsche Bank, Dresdner Bank and Goldman Sachs to co-ordinate planned global offering of shares.

1995
January 1
Deutsche Telekom AG comes into being, a joint stock company 100 per cent state-owned.

May 1
Mr Ron Sommer, head of Sony's operations in Europe, takes over as the new chief executive of Deutsche Telekom.

1996
March
Deutsche Telekom begins campaign to market shares to German retail investors.

July 1
So-called alternative infrastructure – in Germany's case, all telecoms networks other than that owned by Deutsche Telekom – is liberalised throughout most of the European Union. In practice, no alternative infrastructure in Germany is usable because no licences have been issued by the Ministry for Post and Telecoms.

August 1
The Telekommunikationsgesetz, the new law outlining how the German telecoms market will function after full liberalisation in 1998, is passed by the Bundestag.

October 15
The Ministry for Post and Telecoms issues the first three licences for alternative infrastructure.

October 21
Deutsche Telekom global marketing kicks off with so-called 'red herring' prospectus giving indicative price range for shares.

November 18
Deutsche Telekom shares are expected to list on stock exchanges in Frankfurt, New York, London, Tokyo, Paris and Montreal.

1998
January 1
The German telecoms market, along with those of all European Union member states, is opened to full competition in the provision of voice telephony and telecoms networks.

Ron Sommer, chief executive.

■ WIRELESS AND CABLE TV

Broadband side in a tangle as mobiles take off

They were heady days last year when Deutsche Telekom unveiled a range of pilot projects across Germany designed to establish the level of demand for interactive cable television services such as video-on-demand and home-banking, **writes Michael Lindemann.**

Not only did the projects look good, coming just weeks after the birth of Deutsche Telekom as a company, but they also underlined its growing ambitions in multimedia.

However, very little has been heard since then.

Telekom insists its Berlin project is on course, and that another one in Stuttgart is finally off the ground after difficulties with the decoder, the device which unscrambles signals.

Others, who watch developments in Germany's cable television market, are less charitable. "We've heard absolutely nothing about the 10 or 11 pilot projects which Deutsche Telekom launched with such a flurry," said Mr Hermann Neus, who heads the telecoms committee at the American Chamber of Commerce in Germany. "The cable television market has not developed the way one had hoped."

Mobile telephone operations, on the other hand, are already producing good profits, and should show strong growth in the future, analysts say.

T-Mobil, Telekom's mobile phone subsidiary, operates one of three mobile phone networks in Germany and will have to contend with a fourth in 1998 when the alliance between the Viag conglomerate and British Telecommunications begins operations.

While the fourth licence will bring more competition and lower prices, analysts argue this will be offset by the growing number of users.

Meanwhile, uncertainties about the likely demand for broadband television services such as video-on-demand have given rise to greater uncertainties about the likely profitability of the Telekom's cable network. It may be the world's largest network, connecting 16.4m households, but Telekom has yet to earn a single pfenning from it.

Around DM2bn ($1.3bn) has been invested over several years, and another DM3bn will be spent to digitise the network so it can show up to 150 channels, compared with 31 now. For the time being, however, Telekom cannot even say when its cable operations will break even.

In an effort to ensure demand takes off as soon as possible, Telekom is negotiating with Mr Leo Kirch, the media entrepreneur who launched DF1, Germany's first digital television service, in summer. If an agreement is reached, Telekom will – at the press of a button – have a vast array of new programmes on its network, given that Mr Kirch has one of the world's largest film libraries. Mr Kirch, in turn, will have access to the world's largest cable television network.

In mobile telephony, meanwhile, Telekom not only has a strong domestic position, but it has also moved quickly to secure stakes in mobile licences in neighbouring Poland, Austria and the Czech Republic.

The company appears to be confident that mobile phone growth in former Eastern Bloc countries is guaranteed because of the shortcomings of existing fixed networks.

■ DEBT – By Tony Jackson

Chipping away at a DM107bn mountain

One of Deutsche Telekom's most publicised aspects is its colossal burden of debt. Much has been made of the fact that its absolute level of borrowing – DM107bn ($70bn) at the end of June this year – puts it in the top league of the world's borrowers, whether corporate or sovereign.

The company itself seems quite relaxed about this. In some respects, it is not difficult to see why. Nevertheless, the sums are sufficiently daunting to make the detail worth examining.

The first important point is that the debt results from the company's own investment history. This is in contrast with many privatisations or corporate spin-offs, whereby the vendor loads the company with debt as a means of extracting extra cash.

In 1993, Telekom's gross debt stood at DM108bn. In 1994, it rose to DM125bn, then fell back last year to DM110bn. The explicit target is to reduce that to DM65bn or less by the end of the 2000: that is, in just over five years.

This is partly because of the company's pattern of capital investment. It is a cliche that German companies are given to over-engineering. That may or may not be true of Telekom: but it has certainly spent hugely on state-of-the-art networks.

In addition, it has been faced with the daunting task of modernising the phone system of the former East Germany. That task is now largely over. Capital spending peaked at DM22bn in 1993. In 1994 it was DM19bn, then DM15bn in 1995. According to the prospectus, it will nudge up to DM18bn again this year, mainly because of the cost of digitisation. By 1997 it will fall to DM16bn, then drop further in subsequent years.

That apart, the debt target of DM65bn in five years – a fall of DM42bn – is to be achieved in three ways. First comes the DM12.5bn from the IPO itself. Next comes cash flow. On one analyst's estimate, free cash flows, before dividends and financial investments, should average DM9bn a year from 1996 to 1998.

Also, Telekom aims to issue further equity in late 1998 or after. The amount raised will depend on trading and market conditions. However, the company's articles allow for the issue of 1bn shares in total, of which just over half – 575m – will be issued in the IPO.

In the meantime, how easily can the company finance its debt? After all, its balance sheet gearing is apparently formidable.

After deducting cash or other liquid assets of DM8bn, net debt at mid-year was DM99bn, while shareholders' funds were DM26bn – that is, net debt was equivalent to 280 per cent of shareholders' funds.

In many companies, that would be an unambiguous warning signal. In Telekom's case, it may well be affordable. Its interest charges, to begin with, are reasonably predictable, since most of its debt is at fixed rates. Last year, its average interest rate was 7.3 per cent. In the previous two years, it was 7.5.

From a banker's viewpoint, of course, the question is how well the debt charge is covered by profits and cash flows. Again, the answer seems reassuring. In 1995, the interest bill of DM8.2bn was covered 2.3 times by pre-interest profit. In the two preceding years, the ratio was almost identical.

While that seems safe, the really cautious banker would look at cash cover. On that basis, the picture is more reassuring again. Net cash from operations – that is, before depreciation but after tax – covered the interest bill 3.6 times last year and 4.1 times the year before.

The higher figure for cash cover is largely accounted for by Telekom's huge depreciation charge: DM15.4bn last year alone. It would be imprudent to disregard this, at least in the long term. The industry is in the middle of immense technological change. Telekom's installed asset base could be largely obsolete in 10 years.

But the real question for a company with Telekom's debt burden is how predictable its cash flows will prove. Unfortunately, there can be no definite answer to that. The essence of a monopoly is that it has been historically immune from market forces. It is therefore impossible to predict how those forces will shape its future.

Thus, Telekom's enormous balance sheet gearing makes its earnings highly sensitive to changes in pricing and volume, which can scarcely be quantified in advance. But that works both ways. If highly leveraged investments work, they are very profitable: and at the outset, Telekom's sums look better than most.

The world's major debtors* ($bn)

1. US	4,984	21. Tokyo Power	81
2. Japan	4,153	22. Finland	88
3. Germany	1,382	23. Argentina	77
4. Italy	1,250	24. Deutsche Telekom	67
5. France	669	25. Turkey	66
6. Canada	616	26. Norway	58
7. UK	575		

*BZW's estimate Source: World Bank

Deutsche Telekom's key financial figures

	REVENUES DM M	EBITDA* DM M	OPERATING PROFIT DM M	NET PROFIT DM M	DIVIDEND PER SHARE	NET DEBT DM M
1995	66,135	33,756	18,379	5,272	—	100,000
1996E	62,718	31,386	13,380	1,483	0.60	87,000
1997E	66,369	34,950	16,576	4,576	1.20	83,000
1998E	68,471	36,017	17,997	5,298	1.30	77,000
1999E	70,749	36,688	18,962	5,873	1.40	71,000
2000E	72,998	38,132	21,788	7,372	1.60	65,000

*Earnings before interest, tax, depreciation & amortisation Source: BZW

European telecomunications growth (Cumulative annual growth rate)

1995-98	REVENUES %	NET PROFITS %	PERSONNEL %
France Télécom	3.1	15.5	−1.0
Deutsche Telekom	1.2	1.6	−2.2
BT	3.3	5.6	−4.8
Telecom Italia	2.2	22.2	−4.6
Telefónica	9.3	18.7	−3.4
KPN	8.2	14.7	−1.5
TeleDanmark	10.0	0.6	−0.3
European average	3.8	10.0	−2.9

Source: BZW estimates

■ HISTORY – By Alan Cane

Shedding bureaucratic legacy

Deutsche Telekom, as chief executive Mr Ron Sommer is fond of joking, is a two-year-old company with 500 years of experience.

The first public telephone networks were set up in Germany in 1881, but the telephone business remained part of the Deutsche Bundespost until 1989, when in a first step towards improving customer satisfaction and loyalty, the state organisation was divided into postal, banking and telecoms units.

Deutsche Telekom AG did not emerge in its modern form as a state-owned joint stock company until 1995. Its early history parallels that of British Telecommunications, characterised by superb technological achievements and an unwieldy, bureaucratic structure.

In 1935, for example, it transmitted the world's first regular television programmes. By 1936 it had established a public videophone link between Berlin and Leipzig and, by 1983, it had demonstrated the world's first video conference.

At the same time, however, it was building a reputation among Germany's business customers for some of the highest long-distance and international call prices in Europe, combined with a scant regard for commercial realities.

The extent of customer discontent was measured in a 1995 survey by the international consultancy Romtec, which found that more than 70 per cent of German companies would switch at least 20 per cent of their business to another operator, given the opportunity.

At the time, Mr Ron Sommer, Telekom's new chief executive, had been in the post only a few months. The reforms he and his team have since instituted have improved the company's reputation for customer service.

The technological skills which gave Telekom a lead in the transmission of voice and image in the early part of the century are reflected in its modern achievements in intelligent networks and multimedia services.

It is immensely proud, for example, of the speed with which it built a national digital network, upgrading its existing system and modernising the former East Germany. A total of DM135bn ($87.5bn) was spent between 1990 and 1995. Digitisation of the entire network is expected to be completed by late 1997 or early 1998.

Telekom is the world leader in the provision of ISDN, an advanced digital transmission technique which makes it possible to use a single line simultaneously for, say, voice, data, fax and image. With 4.3m channels installed by June this year, it is reckoned to have supplied more than one-third of the world's total ISDN lines.

A further strength is Europe's largest cable television network, with almost 16m subscribers generating DM2.4bn a year in revenues. The group plans to increase its involvement in television and multimedia activities.

While Telekom's improvements in marketing are acknowledged, the legacy of more than a century of state ownership is something Mr Sommer will have to work to counter.

■ COMPETITION – By Alan Cane

Incumbents keep upper hand

Telekom's domestic fixed networks last year generated revenues of about DM51bn ($33.2bn), compared with group turnover of DM66.1bn. Those domestic revenues will be under increasing threat from 1998, when local, long-distance and international business opens to competition.

With less than 15 months to go before the barriers around Europe's principal telecommunications markets come down, would-be predators are circling Deutsche Telekom, seeking a way into the European Union's largest market.

Analysts say the overall market could be worth DM100bn by 2000 – in spite of the falling prices which will be an inevitable consequence of intensified competition.

Those hoping to take advantage of the liberalisation of the German market include domestic utilities diversifying into telecoms as well as overseas operators. There are also a number of a new breed of telecoms operator, exemplified by MFS-Worldcom of the US: small, fast-moving and equipped with the most up-to-date technology.

Five German companies – the industrial conglomerates Veba, Viag and RWE, together with Mannesmann and Thyssen – have declared the intention of competing with Telekom and have sought the support of overseas groups to do so. Analysts, however, believe the market can support only two groups in competition with the incumbent. Two events have altered the battle lines significantly over the past few months.

Mannesmann, the engineering and telecoms group which has a relationship with AT&T of the US and its ally, the pan-European carrier Unisource, earlier this year won the bid for DBKom, the telecoms network operated by the German railway company Deutsche Bahn.

RWE, which had been expected to join an alliance formed by Viag and British Telecommunications, changed its mind and aligned itself with Veba, which has an alliance with Cable and Wireless of the UK. The three companies plan to establish separate services network companies.

The outcome of this shake-up is to leave Veba, RWE and C&W, and Mannesmann and AT&T as the leading competitors to Telekom. Thyssen, whose main asset is a 30.1 per cent stake in E-Plus, the third German mobile phone network, and the Viag-BT alliance have been pushed down the pecking order.

How real is the threat presented by these groups to Telekom? They are young, aggressive and agile, while Telekom has unions that are resistant to change, and high costs - employees were paid an average of DM79,000 ($52,900) in 1995, some 25 per cent above the European average. By another commonly used measure of productivity, Telekom operates 160 lines per employee compared with 188 at BT and 200 at France Télécom.

But Telekom has already given notice that it will not relinquish market share easily. It will no longer be the "friendly sleeping giant", in the words of Mr Ron Sommer, chief executive.

In March, after three months of argument, it won government approval to award corporate customers discounts of up to 40 per cent. In return, it has had to offer incentives to its residential customers, but the move forced competitors to reassess their strategies.

It is "rebalancing" its prices rapidly – that is aligning them more closely with costs to enable it to compete on equal terms with its rivals. In the past few months it has shortened the basic charging unit, introduced new domestic long-distance price zones and absorbed VAT on telecoms services.

Experience in countries where markets are already open, especially the US and UK, indicates that after liberalisation incumbent operators are vulnerable to price competition on lucrative long-distance and international routes for business customers, but have an advantage which is difficult to overcome in the "local loop", the connection between the local exchange and the home or office.

Every competitor has to interconnect with Telekom's network at some point to collect or deliver calls. This opens the possibility of competing in ways other than on price. The Berlin Kartel office is already considering complaints from Telekom competitors who argue it is not playing fair. "If you are the incumbent you have everything," the chief executive of one competitor complained. "We can hit Telekom severely on price and they are able to respond only because they own the cables and wires."

Incumbents have open to them a variety of methods of slowing down the competition. They can put a competitor at the end of a queue for leased lines, for example. Or they can delay delivery of products or services, forcing the competitor's customers to return to the incumbent for service.

BZW estimates Telekom will lose 1.5 per cent market share of local calls from 1998; 4 per cent of long distance calls; and 15 per cent of international calls. Much will depend on trading regulation in Germany – most importantly interconnection charges and pricing formula – and the enthusiasm with which the rules are applied.

■ INTERNATIONAL GROWTH – By Alan Cane

Battle for the big spenders

Faced with intensifying competition in its domestic market, Telekom is looking to expand revenues internationally.

Supercarrier alliances are one of the most important ways for incumbent operators to extend their geographical markets. Deutsche Telekom has allied with France Télécom and Sprint of the US to form Global One. It competes with Concert, owned by British Telecommunications and MCI of the US, and with AT&T WorldPartners.

These alliances intend to provide big-spending customers with advanced services on a worldwide basis at discount prices through a single point of contact. The supercarriers' target customers are the 100,000 or so large international customers spending upwards of £50,000 ($79,555) a month on international telephone calls.

No single alliance, however, can yet fully live up to the promise of a global advanced service. And customers, who for years have been forced to make do with their monopoly operator, are exploiting the possibilities opened up by competition to seek bargain prices and better service.

An executive from one of the world's leading "global supercarriers" smiled wearily: "They are enjoying something they have never had before – customer power – and they are going to get even!"

Global One, code-named Phoenix in its development phase, opened for business on January 1. At its inception it had 2,500 staff and 1,200 "points of presence" – electronic gateways into its network – across the globe. It has dual headquarters in Brussels and Reston, Virginia. A principal challenge, analysts point out, is to manage an alliance of three nationalities.

> Supercarrier alliances are an important way for operators to extend geographical markets

Global One gives Telekom the potential to be a truly global operator. But its competitors argue that it has an unfair advantage because of its European parents' position as monopoly operators in unliberalised markets. It has therefore been delayed by problems in achieving regulatory approvals and is therefore at a disadvantage to Concert.

The BT/MCI initiative has the blessing of regulators on both sides of the Atlantic, while Global One has only conditional approvals until the home markets of its parents are fully liberalised.

BT and Viag, its German ally, earlier this month launched a lawsuit to stop Global One trading in what they claim is a breach of European competition rules. They say customers in France and Germany do not have sufficient choice of network to fulfil the conditions under which Global One has been allowed to trade.

While Concert, launched in 1994, has an undoubted two-year lead, Global One's parents are Europe's largest and second-largest telecoms operators, with deep pockets. The alliance offers a comprehensive range of services, from direct dialling and calling cards to global messaging and outsourcing.

It is now working on establishing a global "backbone" network. Sales of $800m are expected in 1996. Some 40 per cent of the world's main multinationals have their headquarters in France, Germany or the US.

Global One apart, Telekom has close to 30 stakes in fixed-wire and mobile enterprises in the US, Europe and Asia. But while the company claims these are more than opportunistic investments, stockbrokers BZW argues that "the strategic priorities are not clear and there is a danger that growth for the sake of size may lead to future problems".

The group has invested more capital in Eastern Europe, where it believes its experience in modernising the east German network will prove valuable, than any other western operator.

In partnership with Ameritech, a US Baby Bell, it holds 67 per cent of Matáv, the Hungarian telephone operator. Investment in the company now totals $1.7bn. The argument is that Hungary, with fixed-line penetration of only 24 per cent, offers strong growth prospects in line with the revival of its economy. Telekom also plans to use Matáv as a traffic hub between eastern and western Europe.

The company is working with Intertelekom, the Russian long-distance operator, on a $1bn project to modernise the communications infrastructure in Russia. It is leading a consortium of carriers which will bring $600m to the project.

Telekom also has interests in the Asia-Pacific region, where it has invested $1.3bn in four holdings, the largest of which is a 25 per cent stake in Satelindo, the principal GSM wireless network operator in Indonesia, bought for for $586m in 1995. It took a 10 per cent stake in TRI, a Malaysian wireless operator for $556m this year.

COMPANIES AND FINANCE: INTERNATIONAL

INTERNATIONAL NEWS DIGEST

New chief for General Re unit

General Re Financial Products, the derivatives arm of General Re, the US reinsurance company, has appointed a new chief executive to lead an expansion drive. Mr Anthony Iliya said he expected the unit, which currently employs 150 staff worldwide, to double in size in the next two years.

The existing business is primarily focused on fixed-income derivatives and serves a client base made up largely of financial institutions. Mr Iliya said he planned to build the equity derivatives business and broaden the client base. "We expect that some of our new business will be derived from cross-marketing opportunities with General Re's reinsurance and insurance company asset management operations," he said Mr Iliya.

A number of other insurance companies have set up derivatives units in recent years, most notably AIG Financial Products. Insurance companies' experience in assessing risk and their strong credit ratings are directly relevant to the over-the-counter derivatives business.

Mr Iliya, 42, was previously a managing director of Credit Suisse Financial Products, where he was co-head of European marketing and a member of the management committee. *Tracy Corrigan, New York*

ICICI edges ahead at midway

Industrial Credit and Investment Corp of India, the leading Indian financial institution, lifted net profit marginally to Rs2.66bn ($74.3m) in the six months to September 30, from Rs2.64bn in the same period last year. This was despite a 22 per cent rise in total income from Rs14.6bn to Rs17.73bn. The institution, which made a global depositary offering in August, saw its shares fall Rs3 to Rs64, despite a strong surge in most leading stocks.

ICICI said the figures were not comparable with the corresponding period because of tighter rules on provisions for non-performing assets imposed by the Reserve Bank of India, the central bank, in January. Provision for bad and doubtful debts rose from Rs440.7m to Rs513m. Loan disbursements were up from Rs32.66bn to Rs45.44bn. *Tony Tassell, Bombay*

Two HK bank directors quit

Two of Hong Kong's most prominent businessmen have resigned from the board of the Hong Kong and Shanghai Banking Corporation.

Mr Tung Chee-hwa, the shipping tycoon, is resigning to run for election as the chief executive, the territory's top political job after next July's return to Chinese sovereignty. Mr Alasdair Morrison, managing director of Jardine Matheson, the Hong Kong conglomerate, is resigning following his appointment as chairman of the Jardine Fleming Supervisory Committee. The moves reduce the number of board members from 18 to 16. *John Ridding, Hong Kong*

Kao upbeat after interim rise

Kao, a leading Japanese household products maker, said first-half unconsolidated recurring profit rose 3.2 per cent to Y27.83bn ($246.8m), primarily because of a streamlining of operations and strong sales of cosmetics, including several new products.

Total sales rose 2.1 per cent to Y340.35bn. Net profit climbed 7 per cent to Y14.11bn, or Y23.49 per share from last year's Y21.96.

For the year to March 31, the company expects a recurring profit of Y56bn, up 3.2 per cent, on projected sales ahead 2.4 per cent at Y690bn. That would be the 16th consecutive record for Kao. On the main section of the Tokyo stock market yesterday, Kao rose Y20 to Y1,400. *Gwen Robinson, Tokyo*

Bangkok to sell airline stake

Thailand's finance ministry will sell a $120m stake in Thai Airways International in order to finance its proposed bail-out of the lossmaking Don Muang Tollway, under a plan approved by the country's cabinet yesterday.

The share sale is unlikely to take place on the open market; instead, the Government Savings Bank and other institutional investors will be invited to bid for the stake in a private placement.

At current prices the finance ministry would sell about 8 per cent of Thai Airways, reducing its holding to 84 per cent. The proceeds will go towards the purchase of a 40 per cent stake in the Don Muang Tollway, a privately-run lossmaking 16km expressway. *Ted Bardacke, Bangkok*

Shell Oil up 14% in term

Shell Oil of the US yesterday reported record third-quarter earnings of $493m, up an adjusted 14 per cent over last year's $431m. Improved refining margins, better prices for oil and natural gas, and increased volume sales of chemicals were only partly offset by a sharp drop in chemicals margins.

The results brought the earnings improvement over the first nine months of 1995 to 18 per cent, with cumulative profits at $1.3bn after allowing for extraordinary items.

Revenues rose 20 per cent in the quarter to $7.3bn and 15 per cent to $21bn for the year so far. *Christopher Parkes, Los Angeles*

Barrick Gold earnings slide

Barrick Gold's third-quarter earnings tumbled by two-thirds, with higher revenues offset by rising costs and a charge related to a shelved exploration project in Peru.

Net earnings of the Toronto-based gold producer slid to US$21m, or 6 cents a share, in the three months to Sept 30, from $67.7m, or 19 cents a year earlier.

The latest figures include a previously announced after-tax charge of $38m, equal to 10 cents a share, for costs incurred at the Cerro Corona project, where drilling results failed to live up to expectations. Gold output rose from 733,678 ounces to 767,136 ounces, and the average price realised climbed from $408 to $415 an ounce.

However, cash operating costs moved up to $201, from $194 an ounce, partly due to an eight-day strike at Barrick's Chilean properties and a temporary shutdown of a processing plant. *Bernard Simon, Toronto*

Inco hit by lower nickel prices

Lower nickel prices pushed Inco's earnings down to US$29m, or 21 cents a share, for the three months to Sept 30, from $44m, or 33 cents, a year earlier.

The Toronto-based metals producer said it expected production to begin in the second half of 1999 at the newly-acquired Voisey's Bay nickel, copper and cobalt property in eastern Labrador.

Average realised nickel prices in the third quarter fell from $3.92 to $3.50 per lb. Copper prices were also lower. Nickel deliveries fell from 145m to 130m lbs, due to an explosion in an electric furnace at PT Inco in Indonesia, and a 14-day labour dispute at Inco's mines in Manitoba. Finished nickel stocks stood at 59m lbs on September 30, down from 67m lbs three months earlier. *Bernard Simon*

Kimberly-Clark sees savings

Kimberly-Clark, the US paper group, expects to save at least $250m this year from the integrated operations of Kimberly-Clark and Scott Paper. Earlier in the day the company reported third-quarter earnings of $1.34 a share, including gains, on sales of $3.28bn. That compared with earnings per share of $1.32 on sales of $3.51bn. The company said the decline in sales was due to divested businesses. Interest expense for the current quarter fell $18m from 1995, primarily because of a lower debt level. *Reuter, Dallas*

Philip Morris advances 14.9% in third term

By Richard Tomkins in New York

An 11 per cent increase in sales of Marlboro, the world's top-selling cigarette, helped Philip Morris, the US tobacco and foods group, report another quarter of strong profits growth.

Revenues rose 7.3 per cent to $17.4bn and net profits by 14.9 per cent to $1.6bn. Earnings per share, boosted by $700m of stock repurchases during the quarter, were ahead 17.5 per cent to $2.01, in line with analysts' forecasts.

Mr Geoffrey Bible, chairman and chief executive, said: "Our three largest businesses are absolutely flying, with terrific momentum in both domestic and international tobacco, and growth in North American food that is clearly outstanding by industry standards."

Performances from the international food and Miller Brewing divisions were less impressive: international foods' operating profits rose only 4.5 per cent to $299m, and the beer division's operating profits fell by 1.7 per cent to $117m.

But Mr Bible said international food was continuing to show progress, and the company was "moving vigorously" to reinvigorate the beer division.


Geoffrey Bible: three largest businesses 'absolutely flying'

As in other recent quarters, the best performance came from international tobacco. Philip Morris said cigarette volumes rose in nearly all big international markets except Mexico, where consumers continued to trade down to lower-priced brands.

Marlboro continued to build on its position as the world's best-selling cigarette, helping lift total international volumes by 9.8 per cent to 177bn cigarettes. The division's operating profits rose 18.9 per cent to just over $1.1bn.

Domestic tobacco made operating profits of just under $1.1bn on the back of a 7.8 per cent increase in volume to 60.4bn cigarettes.

Part of the gain reflected a distortion in shipments in the comparable quarter, but it also resulted from increases in market share – particularly for Marlboro, which increased its share of US cigarette sales by 3.1 percentage points to 33.7 per cent.

The North American food division, consisting of Kraft Foods, increased operating profits by 9.4 per cent to $642m, ignoring business sold since the beginning of last year.

Philip Morris said brisk US volume growth was fuelled by double-digit gains in beverages, pizzas and desserts, along with "solid" increases in coffee, cereals and processed meats.

The beer division suffered from tough competition and a decline in volumes, while international food was hit by static revenues and the cost of moves to increase productivity.

Higher US sales help lift Northern Telecom

By Bernard Simon in Toronto

Strong US orders and fast-expanding wireless business helped Northern Telecom lift third-quarter earnings by 34 per cent.

The Toronto-based telecommunications equipment supplier lifted net earnings to US$113m, or 43 cents a share, in the three months to September 30, from $81m, or 32 cents, a year earlier. Revenues climbed 23 per cent to $3.05bn.

Orders received in the third quarter totalled $3.09bn, up from $2.69bn.

The earnings were in line with analysts' estimates. Nortel shares edged up 62 cents to $60.62 in early trading in New York yesterday.

According to a survey by First Call, a research tracking group, analysts expect Nortel's earnings to climb to $2.39 a share for 1996 as a whole and $2.98 in 1997, from $1.85 last year.

The US accounted for 54 per cent of revenues in the first nine months of the year, up from 50 per cent in 1995.

Mr Jean Monty, chief executive, said growth in the US was sturdy for all main product lines, reflecting the rapid expansion of the telecommunications infrastructure. "We see the market as very strong for the next couple of years," he added.

But Mr Monty said business was "not going well" in China, where Nortel had pinned high hopes in recent years. The setback is ascribed to lower orders for switching equipment, and intense price competition. Mr Monty said Nortel needed to reconsider its strategy in China.

Wireless sales grew by 46 per cent in the first nine months, contributing 17 per cent of total revenues, up from 14 per cent. Growth for these products was strongest in the US, Europe and Latin America.

Nortel has shifted its emphasis in recent years from specific products to supplying integrated telecommunications networks.

Mr Monty said he expected that further deregulation, globalisation and advances in technology would open new opportunities in network services.

COMPANIES AND FINANCE: THE AMERICAS

US drugs groups report mixed results

By Richard Waters in New York

Four big US drugs companies yesterday reported mixed earnings for the latest quarter, with one-off items, patent expiries and other factors obscuring a period of solid sales growth for the industry as a whole.

American Home Products saw a further improvement in profit margins as it continued to absorb American Cyanamid. Net income rose by a quarter from a year before, and earnings per share by a fifth, on sales up 7 per cent.

The company's improved performance was based on a rise of only 2.6 per cent in operating costs. As a result, AHP succeeded in lifting its operating profit margin by three percentage points, to 23 per cent, though this remains some way behind more profitable rivals.

Growth at Bristol-Myers Squibb was held back by the patent expiry in the US earlier this year of Capoten, its biggest-selling drug. Without this, pharmaceutical sales during the quarter would have risen 21 per cent, the company said.

The effects of the expiry were offset by solid advances by newer drugs. Sales of Pravachol, a cholesterol-lowering agent, rose 35 per cent to $261m, with Taxol, a cancer drug, up 34 per cent to $206m.

With operating costs rising 9 per cent in the quarter, and a higher tax rate than a year before, Bristol-Myers' after-tax earnings increased only 9 per cent. Earnings per share rose 10 per cent.

Eli Lilly's reported net income, at $416m, was lower than the $1.23bn posted a year earlier, when it registered profits of $918m on the disposal of a business.

The latest quarter was also lifted by a one-off gain from the sale of a business, which added 12 cents to earnings per share, the company said. Leaving out both items, earnings per share would have been 64 cents, a rise of 18 per cent, Lilly added.

As with other drugs companies reporting recently, Lilly's growth came mainly in the US, where revenues rose 17 per cent. International sales, however, advanced only 3 per cent despite a 10 per cent increase in volumes owing to a stronger dollar and pressure on prices.

Sales of Prozac, the antidepressant that accounts for a third of Lilly's sales, increased 10 per cent during the quarter, contributing to growth in the first nine months of 13 per cent.

Warner-Lambert reported a fall in net income, from $214m a year ago. The 1995 quarter included an after-tax gain of $82m, or 31 cents a share, on the sale of a business. Net income in the latest quarter would otherwise have risen 16 per cent, and earnings per share 17 per cent, the company said.

As with other US drugs companies, Warner-Lambert's sales were held back by a stronger dollar. The company said this cost it three percentage points in sales growth. Disposals of businesses cut another three points from growth, it added.

Of Warner-Lambert's three businesses, only pharmaceuticals increased sales, which rose 8 per cent to $604m. Consumer health products fell 5 per cent to $691m, and confectionery 3 per cent to $473m.

US drug companies: third quarter 1996

Company	Revenues $m	% change on 1995	Net income $m	Eps $
American Home Products	3,470.9	+7.0	491.1	0.77
Bristol-Myers Squibb	3,745.0	+10.0	753.0	1.50
Eli Lilly	1,803.9	+11.0	415.6	0.76
Warner-Lambert	1,768.0	-0.4	152.7	0.56

Source: Companies

Microsoft beats forecasts with 22% rise

By Louise Kehoe in San Francisco

Microsoft beat Wall Street expectations with a 22 per cent gain in earnings for its first fiscal quarter, as the world's largest software company experienced strong growth in sales of its server software as well as programs for personal computers.

Net income for the quarter was $614m, or 95 cents a share, against $499m, or 78 cents. Wall Street analysts had been projecting earnings of about 90 cents a share.

The advance was struck on revenues up almost 14 per cent at $2.29bn, against $2.02bn in the same period last year.

This was the slowest revenue growth in the company's history, but Microsoft said it was pleased with the outcome, noting that revenues rose over strong results in the first quarter of 1995 when the company launched Windows 95, its widely-used PC operating system.

Last year, Microsoft's revenues and earnings grew by nearly 50 per cent, but this rate was not expected to continue in the current year.

First-quarter gains were driven by "solid results across a wide range of businesses, including operating systems, personal productivity tools and enterprise solutions," the company said.

While revenue growth in many categories was relatively slow, entertainment software sales grew rapidly, the company said.

During the quarter Microsoft began shipments of a new version of Windows NT, aimed at business customers. Initial sales are "outstanding", said Mr Jeff Raikes, group vice-president.

"Corporate customers made the decision to adopt Windows NT servers and workstations in record numbers, driving 19 per cent revenue growth over the last quarter in the US and Canada," he added.

Windows NT shipments were four times the level of the same period last year, the company said.

Microsoft said that its new Internet browser, Internet Explorer, had been downloaded by more than 3m people since the latest version was introduced two months ago.

After the close of the quarter, Microsoft unveiled a new Internet-based version of its on-line information service, The Microsoft Network.

Operating systems and other systems software accounted for 52 per cent of revenues, with applications programs at 47 per cent.

North American sales accounted for 35 per cent of revenues, versus 37 per cent in the same period last year.

European revenues dropped to 19 per cent of the total, from 21 per cent last year.

Tenneco warns of impending $400m charge

By Laurie Morse in Chicago

Tenneco, the US conglomerate, is to take a charge of up to $400m to cover the cost of spinning off its Newport News Shipbuilding division and merging Tenneco Energy with El Paso Energy.

The charge will be taken in the quarters in which the transactions are completed.

The disposals, announced earlier this year, are central to Tenneco's plans to become a packaging and automotive equipment company.

The bulk of the charges – more than $200m – is associated with restructuring $4bn in corporate debt. The remainder, about $200m, stems from costs related to pension and stock-sharing benefits for employees, and legal and accounting fees associated with the demergers, said Mr Dana Mead, Tenneco chairman.

Both the energy and shipbuilding deals should close in the fourth quarter, pending regulatory approvals.

News of the future charges came as Tenneco reported a $31m one-off cost against third-quarter earnings to cover losses sustained from its first commercial shipbuilding contracts at Newport News.

Tenneco executives said the company had vastly underestimated the costs of producing double-hulled tankers.

In the third quarter ended September 30, Tenneco had net income from continuing operations of $116m, or 67 cents a share after the special charge, up from $94m, or 53 cents, in the same quarter last year. Sales in the quarter rose from $2.16bn a year ago to $2.8bn.

Falling containerboard prices dented operating income from Tenneco's packaging division.

Packaging income was $85m, compared with $111m last year, when containerboard prices were at record highs.

Tenneco Automotive's operating income rose 34 per cent in the quarter to $82m, from $61m last time.

For the first nine months, Tenneco's net income from continuing operations was $784m, or $2.50 a share, on sales of $8.3bn.

This compares with $544m, or $1.96, on sales of $6.5bn in the first three quarters of 1995.

Canadian forest products groups fall

By Robert Gibbens in Montreal

Depressed paper prices dealt a blow to third-quarter earnings of two big Canadian forest products groups.

MacMillan Bloedel, a big producer of timber and building materials as well as newsprint, magazine papers and packaging, posted net profit of C$1m (US$742,000), equal to a loss of 1 cent a share, against earnings of C$74m, or 58 cents, a year earlier. Revenues were little changed at C$1.4bn.

Nine-months earnings were C$123m, or 96 cents, against C$212m, or $1.67, a year earlier, on near-static revenues of C$3.8bn.

Wood products were lower in the third quarter, because of weak prices for pulp logs and chips, and a soft Japanese market. North American building products were strong. Newsprint prices dropped 26 per cent year on year.

Abitibi-Price earned C$18m, or 20 cents a share, in the quarter, down from C$84m, or C$1, a year earlier, on revenues down from C$757m to C$613m.

Profit for the nine months was C$113m, or $1.27 a share, against C$182m, or C$2.17, on sales little changed at C$2bn. Newsprint shipments dropped 11 per cent.

Abitibi, one of North America's biggest newsprint producers, said three years of restructuring had raised efficiency and its ability to weather price downturns. "We are implementing our growth strategy to create maximum shareholder value," said Mr Ron Oberlander, president.

Three other forest products groups – Avenor, Noranda Forest and Domtar – have already posted heavy declines for the third quarter. Newsprint prices have dropped from US$750 a tonne late in 1995 to about US$540, and analysts expect further declines before some recovery late next spring.

AMERICAS NEWS DIGEST

Acquisitions help MCI post 11% rise

Acquisitions and solid growth in its core long-distance telephone business enabled MCI, the US telecoms company, to increase revenues by 21 per cent to $4.7bn in the three months to the end of September. Net income increased only 11 per cent to $304m, however, as interest costs rose.

Revenues from long-distance calling advanced 11 per cent – slower than the 14 per cent increase reported last week by smaller rival Sprint, but well ahead of the anaemic growth that has dented stock market confidence in AT&T in recent months. MCI's new businesses, based largely on the acquisition of Systemhouse, a systems integrator, and Nationwide Cellular, generated sales of $474m and a net loss of $73m. Earnings per share came in slightly ahead of expectations at 44 cents, against 40 cents last time.

Richard Waters, New York

■ Alestra, the joint venture between Alfa, the Mexican industrial group, and AT&T of the US, yesterday announced the formal incorporation of Visa-Bancomer, a group which includes Bancomer, the country's second-largest bank, and Femsa, Mexico's biggest drinks company. AT&T will maintain a 49 per cent stake, while Alfa's holding will fall to 25.6 per cent. Visa-Bancomer will hold the remaining 25.4 per cent.

Daniel Dombey, Mexico City.

American Brands shows growth

American Brands, the US consumer products group planning to spin off its Gallaher tobacco operations in the UK, yesterday said net income grew by an underlying 2.4 per cent to $136.7m in the third quarter, but share repurchases helped take fully-diluted earnings per share ahead by 11 per cent to 79 cents. The figures exclude a gain on disposals in last year's third quarter.

The Gallaher subsidiary, the UK's biggest tobacco company, suffered a 0.5 per cent decline in total volume but lifted operating profits by 4.6 per cent to $160.2m, attributing the gain to a shift in export mix towards higher-margin European markets, cost-cutting, and enhanced productivity. The company's share of the shrinking UK market was slightly ahead at 39.2 per cent compared with 39 per cent a year earlier.

Richard Tomkins, New York

Monsanto surges in third term

Agricultural products and specialty chemicals helped Monsanto to a record third quarter. The US chemicals and biotechnology company saw net income rise to $170m, or 28 cents a share, on sales of $2.2bn, against net income of $140m, or 23 cents, on sales of $2bn in the third quarter of 1995.

Monsanto's Searle pharmaceuticals division reported a drop in net income for the quarter.

Net sales in the agricultural products group, which includes its market-leading Round Up herbicide, as well as genetically-engineered soyabean seeds and a hormone used to stimulate milk production in cows, rose to $613m in the quarter, from $464m a year ago.

Earlier this month, Monsanto said its was considering the sale or spin-off of its specialty chemicals business. Operating income for the chemicals division rose 33 per cent in the quarter, to $101m, from $83m in the same period last year, making it Monsanto's largest income-producing division. Sales in the unit fell to $773m in the quarter, from $873m in last year's third quarter.

Laurie Morse, Chicago

COMPANIES AND FINANCE: ASIA-PACIFIC

Diverging trends emerge among Japan brokers

By William Dawkins in Tokyo

The "convoy approach" in Japan's securities industry has started to break down.

In recent years, Japan's top four securities companies have performed roughly as a group while the rest followed their own path. But the latest set of results, for the six months to September, shows a divergence among individual company performances – a consequence of the competition introduced by the partial deregulation of stockbroking commissions in April 1994.

Nomura, the industry leader, was the first of the big four to bail out its non-banking affiliate, which was struggling under the weight of property-related bad debts. As a result, Nomura reported a Y337.5bn ($3bn) net loss, having more than doubled its recurring profits before tax and extraordinary items. Daiwa was widely expected to follow Nomura's example and clear out the problems at its own non-banking unit, but has so far declined.

Operating revenues among the big four varied widely, from stagnation at Yamaichi to a 25.2 per cent increase at Nomura.

Progress among the rest of the securities companies in the first half was equally patchy. As a group, they swung from a loss to a small profit but, at the individual level, seven of the 10 second-tier brokers remained in the red. Nine of them, with the exception of Yamatane, are expecting a profit in the full year, in some cases breaking a six-year run of losses.

Among the profitable companies, Kokusai stands out, having nearly tripled net profits with the help of increased sales of bond funds. Newly-merged Tokai Maruman Securities celebrated its first reporting period by more than doubling sales of investment trusts. Both companies are pursuing a very different strategy from the routine retail equity broking that is the staple business of Japan's other second-tier securities companies.

The group as a whole reported growth in operating revenues of 11.2 per cent in the first six months, nearly double the rate of the same period last year, but well below their own expectations at the start of the interim period.

This time last year they reported substantial gains from bond trading, as the decline in short-term interest rates sent bond prices soaring. Since then, interest rates have not changed and gains from the bond market have dwindled.

A rising equity market has compensated for a weaker bond market. Tokyo's average daily equity turnover increased 32 per cent by value during the period. This benefited smaller brokers, because of their heavier reliance on share trading commissions. However, they continued to lose their share of commission income. On average, the group derives three-quarters of its income from brokerage.

Nomura illustrates how the make-up of revenues has changed over the past year. Its income from equity trading commissions rose 29 per cent to Y60.2bn in the first six months, while bond trading commissions fell 42 per cent to Y10.4bn.

Not all brokers, however, managed to match the rise in equity trading commission. Yamaichi's commission revenue rose 20 per cent and Nikko's by 15 per cent.

Although contributing only about 5 per cent of total revenues, underwriting new equity issues also proved more lucrative than last year, owing to the increasing number of Japanese companies resorting to direct funding. Here, the big four continued to lead the pack, as a result of their greater placing power. They pulled in 82 per cent of total underwriting fees of Y125bn. In the same period of last year, they accounted for about the same share of Y57bn of underwriting fees.

Despite some brokers' attempts to diversify, these results suggest some smaller companies are still struggling and that the industry has not yet adapted to the decline in equity trading volumes and values since the growth of the late 1980s.

They have, admittedly, cut costs. The industry's staff numbers have fallen just over 19 per cent, to 126,000, in the past four years. But the number of companies competing for a smaller share of commission income has not declined. Until that happens, say analysts, the modest profit growth shown in the latest interim period will be the norm.

Japan's brokers: interim results (Y bn)

	Operating revenue	% Change	Recurring profits 1996	Recurring profits 1995	Net profits 1996	Net profits 1995
The big four						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16.4
Daiwa	157.6	9.5	28.5	27.5	19.0	20.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.9
Yamaichi	110.9	0.1	6.4	5.2	5.1	2.4
The middle three						
Sanyo	28.8	56.6	1.6	-13.8	0.18	10.4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-4.9
Kankaku	31.8	13.7	-3.0	-10.8	-6.8	-12.9
Other brokers						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.2
Okasan	22.7	9.0	0.5	-2.8	0.5	-3.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-2.6
Cosmo	13.2	1.1	-0.8	-1.4	0.03	-1.6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.7
Marusan	9.7	9.1	2.0	0.9	2.0	0.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.2
Kokusai	44.2	-0.4	5.0	3.2	3.4	1.3
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-3.5
Kosei	[illegible]	2.2	0.5	0.3	[illegible]	0.003
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.7
National	7.0	14.8	-1.3	-2.4	-0.2	-2.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.1
TOTAL**	944.3	11.2	125.4	41.8	-307.26	8.4

Source: Companies * Maruman Securities merged with [illegible] Securities in April 1996 ** [illegible]

Pasminco chairman warns on profits

By Nikki Tait in Sydney

Pasminco, the world's biggest zinc producer, yesterday warned that it would have difficulty matching its 1995-96 profits in the current financial year, unless the Australian dollar price of lead and zinc, its main products, improved.

Mr Mark Rayner, chairman, told the annual meeting that the outlook for zinc was "subdued", although consumption should at least exceed supply for the foreseeable future, pushing down stocks. However, he cautioned: "Until stock levels move significantly lower, the impact on the price of zinc is likely to be modest."

The chairman noted that the price of lead had benefited from low stocks, but said Pasminco expected little further change over the current year.

The company made an after-tax profit of A$40.8m (US$32.3m) last year, almost three times the previous year's figure and its best result in six years. Despite its gloomier forecast, Pasminco said operating performance in the first quarter had been good, with higher production volumes and "real progress" on cost cuts.

It was still hopeful that the Dutch authorities would extend the jarosite storage licence at its Budel smelter in the Netherlands by two years, to mid-2000. This would help to accommodate the delays to the new Century zinc mine, which is being developed by RTZ-CRA.

Century is the only feasible source of "clean concentrates" which would allow the Budel smelter to meet environmental requirements. But its development has been held up by a native title claim, and no agreement has yet been reached between RTZ-CRA and aboriginal groups.

● Sales by the Argyle diamond mine directly into the Antwerp market were "in line with forecasts" during the three months to end-September, according to Ashton Mining, junior partner in mine alongside London-based RTZ-CRA.

Tranz Rail up at operating level

By Terry Hall in Wellington

Tranz Rail Holdings, the former New Zealand Railway Corporation now controlled by Wisconsin Central Transportation, yesterday reported record operating profits and revenues for the year to June 30.

Mr Edward Burkhardt, chairman, said the company's success in growing revenues in a slowing economy reflected cost containment and the strength of its customer base, which includes shipping and both freight and passenger services.

Operating profits rose 5.3 per cent to NZ$110.8m (US$79.1m), giving an operating ratio of 80.6 per cent. Total revenue for the year rose 2.6 per cent to NZ$571.6m. Operating costs rose 2 per cent to NZ$460.8m. Net profit was NZ$49.2m against NZ$73.6m the previous year.

The previous year's figures included an extraordinary profit of NZ$20.1m from the sale of a telecommunications company, higher interest costs of NZ$6.9m relating to the company's listing in New Zealand and US exchanges in June, and higher tax because of deferred financing costs owing to a NZ$175m debt repayment. Tax was NZ$24m compared with NZ$25m.

Mr Burkhardt, who is president of Wisconsin Central Transportation, said the success of the global share offering marked the company's transformation from an unprofitable government department to a successful commercial enterprise. He said the company was now in a position to invest in new value-adding operations. The company plans to pay its first "semi-annual" dividend for the half-year ending December 31.

Astra surprises with big rise in full-year forecast

By Manuela Saragosa in Jakarta

Astra International, the Indonesian car-to-plantations conglomerate at the centre of a controversial battle for control of the company, surprised investors by sharply upgrading its forecast for full-year net income to Rp450bn ($193.6m), compared with a prediction of Rp350bn made earlier this year.

Directors said much of the growth was coming from the company's motorcycle and agribusiness units, which pushed net income in the first nine months up 26 per cent to Rp340.85bn on revenues which rose 5.5 per cent to Rp9.995bn. Astra reported flat earnings for the first half of this year.

Management also predicted net income would rise to Rp614bn in 1997 and Rp1.581bn in 2000.

Analysts expressed surprise at the revised forecasts, after the company's downbeat predictions before the launch of Indonesia's "national" car.

However, Mr Teddy Rahmat, Astra president-director, said he had "never been so optimistic about Astra's future".

Under the "national" car policy, President Suharto's youngest son, Mr Hutomo Mandala Putra, was awarded tax and tariff breaks not available to established carmakers to build a "national" car in co-operation with South Korea's Kia Motors.

The upgraded forecasts come as analysts continue to piece together Astra's changing list of majority shareholdings, which has raised questions over the company's future and control over management.

Mr Bob Hasan, commissioner of Nusamba, an investment company partly owned by foundations linked to President Suharto's family, has stated that Nusamba intends to buy "at least 10 per cent" of Astra from state-owned banks.

According to Astra's list of shareholders on October 16, state-owned banks and pension funds hold 9.61 per cent of its shares.

In the meantime, Mr Putera Sampoerna and his clove cigarette company, Hanjaya Mandala Sampoerna, have built up a stake of nearly 13 per cent in the company.

Some reports have said that Sampoerna intends to sell its 2.85 per cent stake in Astra, but Mr Putera was quoted in one local paper as saying that he would not sell his personal stake.

Indonesian newspapers have reported that Mr Putera already holds 25 per cent of Astra's shares through nominee companies, although Mr Putera has declared only a 9.81 per cent personal holding to Indonesia's Capital Markets Supervisory Board, known as Bapepam. A bid for more than 20 per cent of a listed company's shares must be made through open tender.

Philippines to continue sell-offs

By Edward Luce in Manila

The Philippine government yesterday revealed its "third wave of privatisation", with plans to sell off state-controlled social security and pension funds.

The sell-offs are expected to come after the completion early next year of the remaining "second wave" of privatisations, which concern mostly public-sector infrastructure.

Revenues from the first phase, which included the state airline, the Philippine National Bank, the national steel company and the state petrol corporation, helped push the national budget into surplus for three consecutive years.

Officials say revenues from the US$6bn privatisation of the national power corporation early next year and the sale of Manila's water system in December will maintain the buoyancy of public revenues in 1997 even if a proposed new tax system is not in place by that time.

The tax reform bill, which has been bogged down in congress for six months, would raise an extra 15bn pesos (US$600m) in its first year by widening the tax base.

The third wave, which would include social security funds covering 27 per cent of the country's 68m population, would bring in fewer proceeds but is expected to boost the country's capital markets and improve the domestic savings rate.

International donors, such as the Asian Development Bank and the International Monetary Fund, have urged the Philippines to enact the new tax system before privatisation revenues run dry.

Mr Roberto de Ocampo, secretary for finance, said the government was also looking at contracting out public services to outside management.

COMPANIES AND FINANCE: UK

Share consolidation and FID proposed to meet tax change

Reckitt plans £152m pay-out

By Roderick Oram

Reckitt & Colman, the maker of Harpic, Dettol and other household products, yesterday unveiled an innovative way for UK companies to buy back shares that meets a recent change in Inland Revenue rules.

Reckitt is proposing to pay a one-off dividend of 35.65p a share worth £152m ($237m) out of its foreign earnings.

It will also consolidate its shares on the basis of 19 new ones for every 20 held. This will enhance earnings to the same extent as buying back 5 per cent of its shares at 713p each.

"This is entirely in line with Treasury thinking because it does not favour any particular class of shareholder," Mr Vernon Sankey, chief executive, said.

Two weeks ago, Reuters, the news agency, aborted a share buy-back, the latest from a string of UK companies, after the government changed the rules. The government stopped tax exempt shareholders such as pension funds from getting a tax rebate on shares bought in.

Mr Kenneth Clarke, the chancellor, estimated the change would save the exchequer about £80m in fiscal 1997, rising to £400m in 1999.

However, the Inland Revenue said at the time it would treat special dividends as if they were paid gross of tax to shareholders, with the Foreign Income Dividend as the most pertinent example.

The government introduced FIDs two years ago to solve a taxation problem for UK companies generating most of their profits abroad.

They ended up paying tax at a higher overall rate because they made insufficient UK profits to offset Advance Corporation Tax on UK dividends.

Reckitt estimated it would have faced an unrelieved ACT bill of about £35m if it had attempted a 5 per cent share buy-back under the old rules. But with FIDs the ACT is automatically repaid.

"Using the FID is a neat way for the company to get round its ACT problem," one analyst said. "I'm surprised others have not done this."

However, some analysts were surprised that Reckitt was in effect buying back shares only two years after a rights issue to help fund its £1bn purchase of L&F Household in the US.

LEX COMMENT

Reckitt

Reckitt & Colman helped burnish its dull image yesterday with an imaginative approach to returning cash to shareholders. With over £130m of annual free cashflow after dividends, Reckitt was well placed to gear up its balance sheet. But 92 per cent of revenues come from outside Britain, so it would be unable to claw back the Advance Corporation Tax payable on a normal buy-back or special dividend. Instead, it is paying a special foreign income dividend, and matching it with a reduction in the number of its shares. This replicates the impact of a buy-back – albeit one in which all shareholders participate – but Reckitt gets back £35m of ACT which would otherwise stay in the taxman's pocket.

The timing might suggest Reckitt is cocking a snook at the chancellor's recent closure of tax loopholes on share buy-backs. However, since Reckitt refocused from English mustard to American cleaning fluids it has lacked the UK taxable income with which to launch the tax-driven wheezes the chancellor hates. This deal treats all shareholders equally, with no special benefit to tax-exempt investors like pension funds. Indeed, it represents a sensible model for any over-capitalised British multinational.

This hand-out should enhance next year's earnings by 2 per cent, and given Reckitt's strong cashflow there could be more to come. Furthermore, it leaves enough firepower for acquisitions in emerging markets which are Reckitt's best chance of long-term above average growth.

Wolseley seeks further bolt-ons

By Jane Martinson

Wolseley, the world's largest distributor of heating and plumbing equipment, is to continue an accelerated acquisition programme this year in spite of a cautious trading outlook.

The group, which announced a slight fall in annual pre-tax profits yesterday from £245.4m to £242.9m ($379m), has spent £39.6m on 10 acquisitions since its July 31 year end.

Mr John Young, who became chief executive in August, said this rate of about two deals a month – "the most we've done in that sort of period" – would continue.

The group spent £76.4m on acquisitions last year. It is seeking further purchases in the US and other continental European countries. Wolseley already operates in France and Austria.

Acquisitions, likely to be bolt-on, would be financed by debt. Year-end gearing was 7.7 per cent. Mr Young said this could go up to 25 per cent, which would give potential purchase funds of £200m.

While the US provided the strongest profits and sales growth in the period, Wolseley was cautious about prospects because of uncertainties about the forthcoming presidential elections and US interest rates.

The doubts led to an untypically large range – between £265m-£275m – for pre-tax profits forecasts for this year.

The shares fell 14p to close at 493p.

share. A final dividend of 7.25p makes a total of 10.35p (9.8p), up 5.6 per cent.

N&P lifts Abbey National's lending

Abbey National said yesterday it had increased its share of new mortgage lending in the third quarter to September after its £1.35bn ($2.1bn) purchase of the National & Provincial building society, writes Christopher Brown-Humes.

But it also reported a slight drop in its lending margin – the difference between its average mortgage and average savings rate.

The group's share of new lending fell to just 3 per cent in the first half – against a normal market share of 12 per cent – as it refused to match other lenders' discounts and cashbacks or sacrifice quality for market share. It would not quantify its share in the latest quarter, but it is thought it was between 6 and 7 per cent – well below the 15 per cent of existing lending which Abbey and N&P hold.

The integration of N & P, which took place over a single weekend in August, would produce a one-off cost of £60m, it said. This is at the top end of the £35m to £60m range it indicated earlier.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Airflow Streamline	6 mths to Aug 31	50.5	(51.3)	1.16	(2.96)	8.81	(22.91)	2	Jan 3	3	-	9
Boxmore Intl	6 mths to June 30	45.3	(33.7)	7.62	(5.48)	7.6†	(6.6)	0.91	Dec 3	0.81	-	2.64
BB&EA	Yr to June 30	39.5	(54.4)	2.25L♣	(7.13L♣)	18.8L	(57.9L)	nil	-	nil	nil	2.5
Newport	6 mths to June 30	1.31□	(0.878□)	0.061	(0.039)	0.55†	(0.35)	-	-	-	-	0.75
Nynex CableComms	9 mths to Sept 30	108.9	(57.1)	7.51L‡‡	(42.4L‡‡)	-	(-)	-	-	-	-	-
Panther Securities	6 mths to June 30	4.5	(1.94)	1.24	(0.702)	5	(2.3)	1.5	Nov 5	1.3	-	3
Paterson Zochonis	Yr to May 31	361	(286.8)	29.2♠	(25.1)	38.06	(32.35)	13.35	Dec 3	12.45	16	15
Scottish Metro	Yr to Aug 15	20.2□	(18.6□)	9.34	(8.52)	6.4	(5.91)	1.65	Jan 6	1.5	2.75	2.5
Seton Healthcare	6 mths to Aug 31	49.3	(35.4)	7.89	(6.12)	10.9	(9.5)	2.7	Jan 31	2.4	-	7.8
SmithKline Beecham	9 mths to Sept 30	5,778	(5,073)	1,103	(1,485♥)	26.9†	(33.9♥)	4‡	Dec 31	3.2	-	14.25
Wolseley	Yr to July 31	4,314	(3,784)	242.9	(245.4)	29.16†	(29.72)	7.25	Jan 31	6.85	10.35	9.8

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baronsmead VCT	42 wks to Aug 31	94.31	(95■)	0.283	(-)	3.22	(-)	1.81	Dec 6	-	2.56	-
Edinburgh	6 mths to Sept 30★	396.5	(356.5)	19.7	(21.2)	8.7	(7.2)	3.45	Dec 8	3.25	-	10
Exmoor Dual	Yr to Aug 31	12.8	(38.8)	0.636	(0.788)	7.21	(8.94)	1.6	Nov 29	2.3	6.4	9.05
Guinness Flight VC	29 wks to Aug 31	95.13	(95■)	0.097	(-)	1.06	(-)	0.8	Nov 29	-	-	-
M&G Equity	9 mths to Sept 30	66.59	(-)	5.01	(-)	3.3	(-)	0.88‡	Jan 6	-	-	-
Shires Smaller	9 mths to Sept 30	174.1	(154.9♦)	0.882	(0.891)	4.54	(4.59)	1.325§§	Dec 31	1.25	-	5.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ♥After exceptional credit. †On increased capital. □Net rental income. ‡‡Taken before interest, tax, depreciation and amortisation. ☆Restated. ★Comparatives restated. ‡Third interim: includes foreign income dividend element and makes 12p (9.6p) to date. ■Value at launch, net of initial costs. ‡Second interim: makes 2.05p to date. ♣At December 31. §§Third interim: makes 3.975p (3.75p) to date.

BIG BANG IN UK CABLE

Calling C&W number one

Raymond Snoddy on the background to the multi-faceted communications agreement

Mr Richard Brown, the new chief executive of Cable and Wireless, was cock-a-hoop yesterday about the four-way cable and communications deal he had engineered.

With a sense of hyperbole that was perhaps justified in the circumstances, Mr Brown declared: "We have launched the consolidation of the UK cable industry. This deal is just the beginning. If you were left out today you would be saying, how do I become part of this?"

Yesterday's deal is certainly the largest there has been in the UK cable industry. If the multi-faceted agreement goes through, it will take the new grouping, Cable and Wireless Communications, to number one place in the industry with franchises covering more than 6m homes.

By comparison TeleWest, the previous leader, has an interest in 4.2m homes. Ironically, until last week TeleWest thought it was in detailed merger discussions with Nynex CableComms, the second largest company. But, inexplicably, the talks went cold and Nynex executives in the US stopped returning calls – until the final call that formally broke off communications.

Consolidation has been under way in the industry for some time. A total of 36 companies set out on the long march to cable Britain, but after yesterday's deal there are fewer than 10. Many believe there will be no more than four or five, and, in the end, possibly only two or three.

"The strategy is terrific and the deal is extremely positive news for the industry," Mr Stephen Davidson, acting chief executive of TeleWest and chairman of the Cable Communications Association, said yesterday.

The deal will almost certainly prod TeleWest to intensify its efforts to seek new targets – such as Comcast UK, operator of the successful Birmingham franchise.

It was only last week, at the annual European Cable Conference in London, that the leaders of the industry were beating their breasts and saying that change was vital if cable was to make the breakthrough to a big enough share of the market.

Mr Don Cruickshank, director general of telecommunications, appealed to the industry to work together to make cable a more effective force in the UK.

In more dramatic terms, Mr Adam Singer, president of TCI International and a director of TeleWest, denounced his industry for insufficient skills in marketing, packaging, customer relations, lobbying and leadership. The fact that only 22 per cent of possible subscribers were taking cable television services was "robbing us of the ability to negotiate better contracts with Sky, and robbing us of the success to convince the financial markets".

As the largest step towards consolidation gets under way, cable is already a large and growing industry, expected to invest £2.2bn this year alone. More than 7.5m homes have been passed by cable networks and 2.3m are taking at least one service – television or telephone services.

The industry has more than 1.6m television subscribers and there are 1.8m residential phone and 200,000 business lines. Annual turnover has reached £1bn and analysts say the industry has amassed £8bn of external security value in equity and debt.

Mr John Killian, chief executive of Nynex CableComms, last week forecast that by 2001 16m UK homes would have been passed by cable networks – about 90 per cent of the homes under franchise – and that 8m customers would be taking cable services, 6m of them as cable television subscribers. There would be 6.5m residential telephone lines and 1m business lines. Revenues would total £5bn a year and the industry would have £15bn of equity shareholder value.

Are such forecasts likely to be realised and will yesterday's complex agreements help the process?

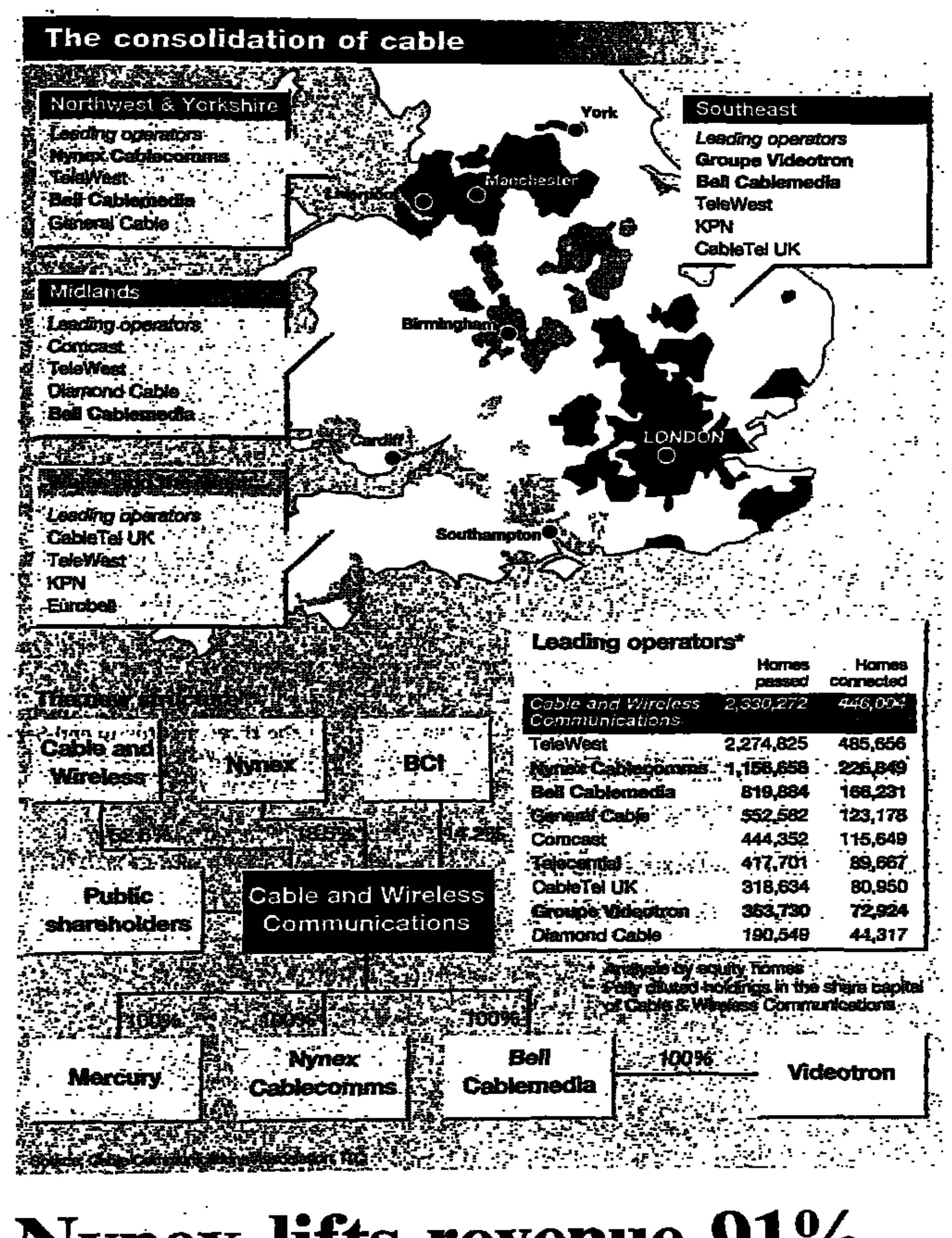
There will be economies of scale in purchasing: C&W Communications will be large enough to stand out for better wholesale terms from British Sky Broadcasting, the satellite venture.

BSkyB, which controls most of the new television channels that viewers are willing to pay for, will not go away. Next year it plans to launch 200 channels of digital satellite television in the UK.

The cable industry will have little choice but to adopt the new technology, incurring additional expenditure on digital equipment at the headquarters of cable franchises and on digital decoders in subscribers' homes.

To point up the scale of the battle that is looming, BSkyB is likely to team up with BT to offer – on digital satellite – home shopping, home banking, Internet access and other interactive multimedia services of the kind being mentioned yesterday as part of the rationale for the merger.

The consolidation of cable



Leading operators*

	Homes passed	Homes connected
Cable and Wireless Communications	2,330,272	446,004
TeleWest	2,274,625	485,656
Nynex CableComms	1,158,658	226,209
Bell Cablemedia	819,894	168,221
General Cable	552,582	123,178
Comcast	444,352	115,649
Telecential	417,701	89,867
CableTel UK	318,634	80,950
Groupe Videotron	353,730	72,924
Diamond Cable	190,549	44,317

■ C&W'S LEAP – By Alan Cane

Brown lands knock-out blow to critics

Mr Richard Brown, Cable and Wireless chief executive only since July, has amply answered critics who doubted his decisiveness and imagination.

In less than two weeks he has unveiled two spectacular coups which have gone to the heart of the problems facing C&W as it seeks to develop a coherent global strategy.

First RWE, the German conglomerate, switched away from a deal with British Telecommunications and Viag in favour of a partnership with C&W's German joint venture Vebacom, a deal which saved the UK group heavy start-up costs and provided some DM450m (£185m) in new funds.

Then came yesterday's four-way merger which provides Mercury, the UK's second largest telecoms operator in which C&W has an 80 per cent stake, with fresh credibility and new potential to compete with BT in the "local loop", the final connection between exchange and home or office.

The deal, the important stages of which were put together in some three weeks, indicates that Mr Brown has a clear perception of the difficulties facing C&W and a determination to put them right. Yesterday he said with understandable euphoria: "Everybody said this deal was impossible. Nobody believed that C&W would be the company to initiate the consolidation of the UK cable industry."

He added: "Every deal we do we are doing from an offensive rather than a defensive position."

While analysts point out that it is easier to do deals than to make them work, the German and UK initiatives suggest that Brown's global strategy for C&W has to be taken seriously. He believes that no wireline company can be successful without a wireless strategy.

It can therefore be only a matter of time before One-2-One, the UK-based mobile phone company in which C&W has a 50 per cent stake, is brought into C&W Communications. The added complexities of a five-way deal could have endangered yesterday's merger.

Analysts argue that C&W's chief area of weakness remains the US, where it operates in niche markets which together make it the fifth largest long-distance carrier but where it has little visibility. Mr Brown does not believe there is great urgency to find a solution, but says he is looking at ways to uncover synergies between the group's business for multinational customers in US and in Europe.

His immediate priority, however, is to make the new structure work in the UK.

Mr Robert Millington, telecoms analysts with stockbrokers BZW who says he is keeping an open mind on whether the new company will be successful in the long term, says the short-term benefit will be to "empower the employees" of Mercury and its new cable allies. "They will have a shiny new company to raise their morale."

The new company should represent a significant threat to BT, which has already been losing customers to the cable companies at between 30,000 and 50,000 a month. The combination of local, national and international services as well as multi-channel television and Internet services could prove a powerful attraction.

One analyst said yesterday that the new company could, if marketed properly, take 25 per cent of BT's market over the next five years.

Nynex lifts revenue 91%

Nynex CableComms, the UK's second biggest cable operator, announced yesterday that its operating cash flow, at £2.2m for the third quarter, was in the black for the first time, writes Tim Gordon.

Losses after tax were reduced from £14.5m in the third quarter of 1995 to £10.9m.

Nine-month figures showed revenue ahead 91 per cent to £109m compared with the previous year, while pre-tax losses narrowed by more than £11m to £46.4m. Net debt soared to £341.6m at September 30, against £7.3m a year earlier.

Mr John Killian, chief executive, said that costs, which rose from £99.5m to £116.4m, had been controlled, but not at the expense of the £30m a year sales effort.

Nynex also announced new bundled cable television and telephony packages, aimed at improving penetration.

There was 70 per cent growth in residential telephony lines in the nine months, rising to 322,921 (189,764) with penetration at 26.4 (23.8) per cent. Revenue was £51.9m (£24.2m).

The number of cable television subscribers rose to 242,867 (164,733) with a penetration rate of 19.7 (18.9) per cent, and a churn rate of 30.3 per cent. Revenue was £44.8m (£26.4m).

Nynex provided 24,937 business telephone lines, a growth rate of 113 per cent since September 1995.

■ ANATOMY OF THE DEAL – By Christopher Price

Surprise quartet plays at the party

Ten months of informal talks, three weeks of intense negotiations and three days of last-minute haggling ended yesterday with the UK cable industry's biggest ever deal.

That the talks were taking place will have come as no surprise to observers of an industry where cross-holdings in operators and franchises are commonplace and consolidation has been a regular feature.

The surprise, if any, is in the players that became party to yesterday's deal. Cable and Wireless, Bell Cablemedia, Nynex CableComms and Videotron have all variously been involved in talks with the likes of International CableTel and AT&T, the US telecoms groups, KPN, the Dutch telecoms group, Deutsche Telekom, the German telecoms company, British Telecommunications, and industry participants TeleWest, Diamond Cable and General Cable.

The urge to talk has been driven by deepening losses and only slowly improving revenues in the face of continued low penetration rates and high turn-off levels – the so-called churn rate – among cable customers. Telecoms groups, on the other hand, have been keen to break into the UK domestic market and have been eyeing the cable industry's infrastructure with growing interest.

In the end, it was the recent breakdown of talks between TeleWest and Nynex, numbers one and two respectively in the UK cable industry, which provided the final spur.

At a stroke, the merger creates the UK's biggest cable operator and a meaningful challenger to BT's domination of the UK residential telephone market. Mercury, C&W's UK telecoms arm, gains potential access to 6m homes, a move which will complement its strengths in international telecoms and the domestic business market.

For the cable companies, the heavy financial burden of constructing their digital networks, still only half completed in many cases, is both shared and boosted by the positive cash flow from Mercury. The telecoms subsidiary made pre-tax profits of £225m last year, while the three cable groups continued to rack up losses.

Mercury's financial muscle and the cable companies' desire to share their burden has left C&W with management control and the potential to build a brand around the quoted company's name. It will hold 52.6 per cent of C&W Communications, a company to be floated in London and New York.

Nynex Corp, parent company of Nynex CableComms, will hold an 18.5 per cent stake, while Bell Canada Inc, which owns a majority of Bell Cablemedia, will have a 14.2 per cent interest. The free float of C&W Communications will be about 15 per cent, and analysts are suggesting a market valuation in excess of £5bn.

Mr Richard Brown, chief executive of C&W, said the company was now searching for a "world-class player" to head C&W Communications. "What we have created here is the first integrated telecommunications and cable company in Europe. The potential is tremendous and we have to get the right people in to realise that."

In the short-term, the three cable operators will continue to administer their respective operations. However, once the London headquarters is in place, rationalisation of the three companies' management centres is inevitable as is some culling of the sales and marketing function.

Customers, however, are unlikely to notice any immediate changes or benefits. Over time, Mercury plans to offer single billing for a wider range of multimedia services, including mobile phones and Internet access. The company also plans eventually to rebrand the franchises under the C&W name.

Mr Stephen Pettit, C&W European business director, said the new company would tackle the industry's fundamental problems of high churn and low penetration rates by offering more attractive packages, combining telecoms, programming and value added services with lower prices.

He criticised the industry's agreements with BSkyB, the satellite channel supplier, which locks cable groups and customers into "bundles" of channels – a situation being investigated by the Office of Fair Trading. C&W Communications would renegotiate to "unbundle" the channels and offer more variety.

Mr Brown said measures to improve the cable business were not necessary to make the merger financially successful, which in the short-term would be driven by cost savings. Analysts estimate the merged group will achieve savings of about £150m in the first year. However, now the talking has stopped, investors will also be hoping the new venture will soon make in-roads into the industry's notoriously poor sales record.

Successful auction lifts UK gilt prices

GOVERNMENT BONDS

By Richard Adams in London and Lisa Bransten in New York

A highly successful auction by the Bank of England bolstered the gilt market yesterday, amid generally buoyant European government bonds.

Liffe's December long gilt future settled at 110¾, up from 109¾. In the cash market, the 10-year benchmark bond rose ⅜ to 99⅞.

In the US, the market paid little attention to a jump in import prices in September, which was driven primarily by rising oil prices and appreciation in the value of the Canadian dollar against the US dollar.

■ Italian bonds also showed healthy performances, as the full Italian cities consumer price index showed a bullish fall towards the 3 per cent level. Liffe's December BTP future settled at 124.16, up 0.97.

■ The Bank of England's £2bn auction of 7 per cent gilts due 2001 helped give a bullish tone to sterling markets. Bids covered 3.57 times the amount offered, with no yield tail – the highest accepted yield equalled the average yield.

Industry analysts said the strong buying came from UK banks and building societies.

That success, and an industry survey showing meagre inflationary pressures, boosted futures prices. March short sterling interest rate futures rose seven basis points to 93.76.

However, the Bank of England surprised the money markets by forecasting a higher than expected shortage of £1.5bn, which it later increased to £1.6bn.

A £700m shortfall was still seen after the first two rounds, and heavy selling of band-two bank bills, mainly by discount houses, bridged the gap in the afternoon. The Bank provided £50m of late assistance.

■ Japanese bond markets continued their upward rush following the election last weekend, hitting new highs in London and Tokyo. On Liffe, the December JGB future reached a new high of 124.00, but ended at 123.92.

The benchmark JGB number 182 bond rose 0.37 to 102.20. Yields fell five basis points to 2.70.

Some analysts are sceptical of reports of JGB buying from overseas. Observers said the main buying interest was domestic, pointing out that local investors believed the government's policy of low interest rates and a weak yen had failed to provoke an increase in domestic consumption.

■ US Treasury prices were modestly lower in early trading ahead of the afternoon auction of two-year notes.

Near midday, the benchmark 30-year Treasury was off ¼ at 99¾ to yield 6.813 per cent, while the two-year note was ⅛ lower at 100⅛, yielding 5.893 per cent. The December 30-year bond future fell ⅛ to 111⅛.

There was little in the way of important economic news yesterday, so traders focused on the new supply set to come on to the market at yesterday afternoon's auction of $18.25bn in two-year paper and today's auction of $12.5bn in five-year bonds.

Some of yesterday's declines were attributed to uncertainty about how easily the market could absorb the new supply, which comes as bonds trade near the top of their recent range.

Also, the market often falls before an auction as traders attempt to boost yields to encourage retail and institutional buyers.

KPN adjusts loan terms to satisfy banks

By Conner Middelmann

KPN, the Dutch postal and telecoms group, has been forced to make concessions to disgruntled banks in the syndicated loans community after the arrangements for its Fl 2.25bn credit facility caused controversy.

Goldman Sachs, the US investment bank, arranged the facility – which marks the KPN's first visit to the syndicated lending market.

An acquisition financing facility had been put in place to support KPN's bid for TNT, the Australian transport group. Goldman Sachs, which also acted as KPN's adviser on the bid, underwrote the entire amount at an undisclosed price for reasons of confidentiality.

Goldman ruffled feathers when it broke from the usual syndication process. It invited a group of banks – mostly those with close relationships to KPN – to underwrite the transaction.

However, instead of selling the transaction down to other banks at the price set by the arranger, Goldman did not disclose the price of its backstop facility and asked banks to bid for underwriting allotments through the more rarely-used Dutch auction system.

This irked the banks, which complained that, in spite of their strong relationships with KPN, they had not been allowed to compete for the arranging mandate, but were now expected to put their balance sheets at Goldman's disposal.

Moreover, while the six most competitive bidders were ensured a place in the co-arranging group, the rest were likely to end up in the general syndicate group – an inglorious fate for important lenders and close relationship banks.

KPN and Goldman Sachs met the banks last week to discuss the transaction and iron out the wrinkles. Although the unpopular auction process remains in place, KPN will appoint the most competitive bidder as joint arranger and book-runner alongside Goldman Sachs – a decision widely welcomed. "It is very important to have an experienced, reputable bank at the helm," said a banker.

Also, while the auction process envisages six co-arrangers, bankers said it was not inconceivable that there might be more than that, since the company is thought to evaluate bidders on a variety of criteria in addition to price, such as its relationship with each bank.

The changes were warmly received, with bankers praising KPN for acknowledging their concerns and accommodating them. "It was a wise decision," one said. "The company took an extremely brave step in adjusting the deal to calm some of the sensitivities that had been aroused."

Another added that everyone was a lot happier now. "We feel there's a more level playing field where all can play a part, and our role as relationship banks has been recognised."

The deadline for bids is October 29 and the structure and pricing are expected to be announced shortly thereafter. The 10 banks involved are ABN Amro, Citibank, Commonwealth Bank of Australia, Dresdner Bank, Generale Bank, ING Bank, JP Morgan, Rabobank, SBC Warburg and UBS.

Italy achieves lowest coupon yet in euroyen

INTERNATIONAL BONDS

By Samer Iskandar

Eurobond issuance yesterday resumed its hectic pace of previous weeks, after Monday's short respite.

The Republic of Italy set a record by achieving the lowest ever 20-year euroyen coupon by a non-Japanese issuer – 3.70 per cent – on a Y100bn deal.

Nomura, the lead manager, said the issue went very well. "It was sold out within two to three hours," it said, attributing the success to investors' improving perception of Italy's credit standing.

The bonds were offered to yield 22.5 basis points more than Japanese government bonds of a similar maturity, compared with a spread of 51 basis points on a 20-year issue launched in July 1995.

Nomura said the borrower had obtained better conditions than it could have achieved in its domestic market, securing "a historically low interest rate".

Furthermore, it said, because of the low coupon, the duration of the bonds is roughly two years longer than on an issue with an identical maturity in lire.

Bayerische Landesbank, meanwhile, launched the largest deal of the day – $1bn of five-year notes. Lead managers Merrill Lynch and Nikko said the transaction was motivated by strong demand for dollar bonds, especially in Asia.

About one quarter of the total amount ended up in Japan, and a similar proportion elsewhere in south-east Asia.

Although sales to European investors were less buoyant, Merrill is confident demand will pick up, and expects a strong performance in secondary market trading.

The lead managers pointed out that investors will be looking to re-invest large amounts before the year-end, due to unusually high redemptions of existing dollar-denominated bonds – around $11.5bn in November and $13bn in December.

Traders reported switching out of a recent 10-year issue by the same borrower, a transaction allowing a yield pick-up of between 2 and 3 basis points.

The Federal Farm Credit Banks yesterday launched the inaugural issue of a $5bn global medium-term-note programme – $500m of three-year notes callable after the first year.

Morgan Stanley, the lead manager, said the transaction aimed to establish the borrower in the international marketplace. It said the fact that roughly 80 per cent of the amount was sold outside the US was "an encouraging factor".

"This showed European acceptance for callable bonds, a structure primarily used by US agencies," said Morgan Stanley.

The Republic of Argentina, which is planning to tap the D-Mark sector today, is also about to issue Y50bn of eight-year paper, possibly tomorrow.

The 30-year D-Mark bonds are likely to be callable every five years after 2006. Deutsche Morgan Grenfell, the lead manager, said the deal will be the longest-dated issue denominated in a European currency by an emerging markets borrower.

Market participants are expecting a coupon in the region of 11.75 per cent, with a possible sub-500 basis point yield spread over ultra-long bunds.

One syndicate official, nonetheless, said the deal would "offer the highest sovereign yield in D-Marks". A recent issue of 20-year bonds for Argentina, also denominated in D-Marks, was yesterday trading at a yield spread of around 465 basis points over bunds.

Kyushu Electric Power was also rumoured to be looking at the dollar market, with a $300m issue of five-year notes. Pricing talk in London dealing rooms revolved around a yield spread "in the low twenties" over US Treasuries.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Bayerische Landesbank	1bn	6.50	100.00R	Nov 2001	0.25R	+13(W 5yr)	Merrill Lynch/Nikko Europe
Federal Farm Credit Banks(a)	500	6.44#	100.00R	Nov 1999	0.15R	+38(6%Aug99)	Morgan Stanley & Co Intl
ACCMT, 96-E, Class A(b)‡*	432.5	(b1)	99.958R	Nov 2001	0.275R		Merrill Lynch
D-MARKS							
Beweg	250	4.625	99.66R	Nov 2000	0.225R	+28(5%Aug00)	Bayerische Landesbank
YEN							
Republic of Italy*	100bn	3.70	100.00R	Nov 2016	0.50R		Nomura International
SWISS FRANCS							
Astinag	300	3.00	101.625	Nov 2001	2.00		UBS
STERLING							
Homeloans(No 3)Cls A1(c1)‡	135	(c)	100.00R	Oct 2028	0.10R		ING Barings/JP Morgan
Homeloans(No 3)Cls A2(c3)‡	252.05	(c4)	100.00R	Oct 2028	0.20R		ING Barings/JP Morgan
ITALIAN LIRE							
European Inv'ment Bank(d)	250bn	7.625	101.375	Nov 2006	1.875		BCI/Cariplo/S Paolo/JPM
PESETAS							
Council of Europe(e)	15bn	5.25	100.475	Nov 2011	1.625		JP Morgan

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from 5/11/97 at par. b) Advanta Credit Card Master Trust. Legal maturity: 17/6/04. b1) 1-mth Libor +10bp. b2) Class B: $27.5m, 17/12/01, 1-mth Libor +33bp, par. c1) Average life: 1.1 yrs. Callable from Oct 98 at par. c2) 3-mth Libor +6bp to Oct 98, then +20bp. c3) Av life: 4.8 yrs. Callable from Oct 98 at par. c4) 3-mth Libor +14bp to Oct 02, then +45bp. c5) Class B: £30.1m, 3-mth Libor +35bp to Oct 02 then +75bp, callable from Oct 98, par, 5.7 yrs. c6) Class C: £31.25m, 3-mth Libor +80bp to Oct 02 then +175bp, callable from Oct 98, par, 5.7 yrs. d) L500bn launched 8/10/96 was increased to L750bn. e) Redemption price: 171.171%. Callable on 25/11/01 at 113.992% and on 25/11/03 at 122.251%.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	94.6070	+0.130	7.52	7.59	8.08
Austria		6.250	05/06	101.5000	-0.140	5.84	5.94	6.26
Belgium		7.000	05/06	106.6500	+0.260	6.06	6.07	6.50
Canada *		7.000	12/06	104.5400	+0.790	6.38	6.63	7.41
Denmark		8.000	03/06	108.1200	+0.220	6.80	6.81	7.25
France	BTAN	5.500	10/01	102.7881	+0.360	4.87	4.98	5.45
	OAT	6.500	10/06	104.2400	+0.280	5.93	5.94	6.30
Germany Bund		6.250	04/06	102.1300	+0.320	5.95	5.99	6.26
Ireland		8.000	08/06	107.8200	+0.270	6.88	6.85	7.42
Italy		9.500	02/06	109.0500	+0.430	8.09†	8.15	9.10
Japan	No 140	6.600	06/01	121.9571	-0.190	1.58	1.66	1.86
	No 182	3.000	09/05	102.1994	+0.370	2.70	2.76	2.93
Netherlands		8.500	06/06	118.6300	+0.210	5.86	5.92	6.21
Portugal		9.500	02/06	112.5800	+0.230	7.57	7.57	8.43
Spain		8.800	04/06	108.8500	+0.370	7.73	7.69	8.61
Sweden		6.000	02/05	92.7388	+0.410	7.18	7.15	7.91
UK Gilts		8.000	12/00	103-30	+10/32	6.88	6.71	7.04
		7.500	12/06	99-27	+17/32	7.52	7.41	7.84
		9.000	10/08	110-20	+22/32	7.83	7.54	7.97
US Treasury *		6.500	10/06	99-26	-7/32	6.52	6.55	6.86
		6.750	08/26	99-08	-12/32	6.81	6.84	7.08
ECU (French Govt)		7.000	04/06	104.7500	+0.230	6.31	6.30	6.69

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	[illegible]	Two year	5.91
Broker loan rate	7	Two month	[illegible]	Three year	6.02
Fed.funds	5¼	Three month	5.14	Five year	6.25
Fed.funds at intervention	[illegible]	Six month	5.33	10-year	6.53
		One year	5.54	30-year	6.82

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	126.20	126.64	+0.32	126.68	126.16	107,318	189,590
Mar	125.20	125.64	+0.32	125.66	125.20	1,398	37,284
Jun	125.04	125.38	+0.32	125.34	125.04	288	4,716

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Nov	Dec	Mar	PUTS Nov	Dec	Mar
123	-	-	-	0.01	0.03	-
124	-	-	-	0.01	-	0.40
125	1.65	1.86	-	0.03	0.11	-
126	0.73	1.10	-	0.09	0.24	0.83
127	0.16	0.56	1.21	0.56	0.48	1.16

Est. vol. total, Calls 16,656 Puts 17,171. Previous day's open int., Calls 200,876 Puts 195,301.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.49	99.81	+0.25	99.87	99.43	143015	259920
Mar	98.45	98.75	+0.22	98.73	98.45	4051	11680

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Nov	Dec	Jan	Mar	PUTS Nov	Dec	Jan	Mar
9950	0.34	0.73	0.44	0.77	0.03	0.42	1.19	1.52
10000	0.07	0.46	0.25	0.59	0.26	0.65	1.53	1.84
10050	0.01	0.26	0.17	0.44	0.70	0.95	1.92	2.19

Est. vol. total, Calls 18572 Puts 12975. Previous day's open int., Calls 225155 Puts 232640

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	123.32	123.75	+0.56	124.25	123.21	52336	81418
Mar	122.80	123.00	+0.56	123.10	122.60	316	2414

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	Mar	PUTS Dec	Mar
12350	1.30	1.93	1.05	2.43
12400	1.05	1.70	1.30	2.70
12450	0.83	1.48	1.58	2.98

Est. vol. total, Calls 6644 Puts 2300. Previous day's open int., Calls 165041 Puts 166229

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	106.96	107.47	+0.45	107.49	106.88	100,446	69,913

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	109-09	110-02	+0-22	110-08	109-07	75527	160186
Mar	108-27	109-08	+0-22	108-27	108-27	11	2265

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Nov	Dec	Jan	Mar	PUTS Nov	Dec	Jan	Mar
110	0-22	0-62	0-57	1-30	0-18	0-58	1-45	2-18
111	0-03	0-34	0-35	1-04	0-63	1-30	2-23	2-56
112	0	0-17	0-20	0-47	1-60	2-13	3-08	3-35

Est. vol. total, Calls 7961 Puts 2080. Previous day's open int., Calls 46922 Puts 36548

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.00	94.30	+0.22	94.34	94.00	1,050	7,428
Mar	-	93.44	-	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	111-02	110-27	-0-07	111-13	111-00	96,205	375,764
Mar	110-18	110-15	-0-04	110-30	110-18	1,601	25,006
Jun	-	110-11	-	-	-	101	5,282

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	123.91			124.00	123.88	2126	na
Mar	122.97			122.97	122.92	273	na

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Oct 22	Day's change %	Mon Oct 21	Accrued interest	xd adj. ytd		Low coupon yield Oct 22	Oct 21	Yr. ago	Medium coupon yield Oct 22	Oct 21	Yr. ago	High coupon yield Oct 22	Oct 21	Yr. ago
1 Up to 5 years (22)	121.77	0.08	121.67	2.50	7.98	5 yrs	7.00	7.06	7.73	7.06	7.12	7.74	7.13	7.18	7.83
2 5-15 years (19)	150.67	0.37	150.11	3.13	8.49	15 yrs	7.78	7.83	8.34	7.78	7.84	8.37	7.82	7.88	8.44
3 Over 15 years (8)	166.34	0.57	165.40	3.43	9.63	20 yrs	7.89	7.94	8.38	7.88	7.94	8.41	7.91	7.97	8.46
4 Irredeemables (6)	191.82	0.64	190.59	4.31	8.83	Irred.†	7.97	8.02	8.43						
5 All stocks (55)	144.55	0.31	144.10	2.99	8.63										

Index-linked							Inflation 5% Oct 22	Oct 21	Yr. ago	Inflation 10% Oct 22	Oct 21	Yr. ago
6 Up to 5 years (2)	202.69	0.13	202.42	0.33	5.28	Up to 5 yrs	3.10	3.12	3.31	2.41	2.44	2.15
7 Over 5 years (10)	194.50	0.35	193.83	1.29	4.17	Over 5 yrs	3.55	3.57	3.74	3.34	3.36	3.54
8 All stocks (12)	194.31	0.32	193.69	1.18	4.21							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 22	Oct 21	Oct 18	Oct 17	Oct 16	Yr ago	High*	Low*
Govt. Secs. (UK)	94.30	93.90	94.00	94.01	94.29	92.57	96.34	91.59
Fixed Interest	115.60	115.45	115.4	115.97	116.15	110.84	116.45	110.74

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

Gilt Edged Activity Indices

	Oct 21	Oct 18	Oct 17	Oct 16	Oct 15
Gilt Edged bargains	82.8	150.5	157.8	106.0	92.9
5-day average	118.0	118.9	110.4	99.8	97.2

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on October 22

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	99⅛	99½	-⅛	6.66
ABN Amro Bank 7¼ 05	1000	101¼	101½	-⅛	7.18
African Dev Bk 7⅜ 23	500	98⅜	98⅞	-¼	7.51
Alberta Province 7⅝ 98	1000	102⅞	103		6.08
Asian Dev Bank 6¼ 05	750	96¾	96⅞	-⅛	6.85
Austria 8½ 00	400	108⅛	108⅜		6.34
Baden-Wuert L-Fin 8⅛ 00	1000	105	105⅛		6.35
Bancomed 7¼ 04	1000	85¼	85⅝	+⅛	10.42
Bank Ned Gemeenten 7 99	1000	102	102¼	-⅛	6.20
Bayer Vereinsbk 8⅛ 00	500	104⅞	105		6.41
Belgium 5½ 03	1000	93⅞	93¾	-⅛	6.71
British Columbia 7¾ 02	500	105⅛	105⅜	-⅛	6.62
British Gas 0 21	1500	15⅛	15½	-⅛	7.84
Canada 6⅜ 05	1500	97⅜	97½	-⅛	6.69
Cheung Kong Fin 5½ 98	500	97⅞	97¾		6.99
China 6½ 04	1000	95⅝	96⅛	-⅛	7.41
Credit Foncier 9½ 99	300	106¾	107⅛		6.27
Denmark 5¾ 98	1000	99⅝	99⅞		6.02
East Japan Railway 6⅝ 04	600	98¼	98½	-⅛	6.93
EIB 6 04	500	96¾	97⅛	-¼	6.56
EIB 9¼ 97	1000	103⅜	103⅞		5.51
Elec de France 9 98	200	103¾	104		6.07
Ex-Im Bank Japan 8 02	500	106⅛	106⅜	-¼	6.64
Export Dev Corp 9½ 98	150	105⅜	105⅝		6.09
Exxon Capital 0 04	1800	59⅜	59⅞		6.66
Fed Home Loan 7⅛ 99	1500	102⅜	102⅝	-⅛	6.26
Federal Natl Mort 7.40 04	1500	104⅛	104¼	-⅛	6.81
Finland 6¾ 97	3000	100⅞	101⅛	-⅛	5.99
Ford Motor Credit 6¼ 98	1500	100¼	100¼		6.14
General Mills 0 13	1000	25	25½		8.59
INI Finance 5¼ 98	650	98¼	98⅜		6.14
Inter-Amer Dev 6⅛ 06	1000	95¾	96	-⅛	6.68
Inter-Amer Dev 7½ 05	500	103⅞	104	-⅛	6.87
Intl Finance 5¼ 99	500	98⅜	98⅝		6.05
Italy 6 03	2000	96⅝	96¾	-⅛	6.72
Italy 6⅞ 23	3500	92⅞	93⅛	-¼	7.63
Japan Dev Bk 6⅝ 01	500	106⅝	106⅞	-⅛	6.55
Korea Elec Power 6⅜ 03	1350	95¼	95⅝	-⅛	7.18
Matsushita Elec 7¼ 02	1000	103	103⅜	-⅛	6.72
Ontario 7⅜ 03	3000	103⅜	103½	-⅛	6.82
Oster Kontrollbank 8½ 01	200	107⅛	107⅜	-⅛	6.56
Portugal 5¾ 03	1000	94⅞	95⅛	-¼	6.79
Quebec Hydro 9¾ 98	150	106	106⅛		6.35
Quebec Prov 9 98	200	103⅝	103⅞		6.27
SAS 10 99	200	107	107⅜	-⅛	6.65
SNCF 9½ 98	150	105⅜	105⅝		6.12
Spain 6½ 99	1500	101	101⅛	-⅛	6.11
Sweden 6½ 03	2000	99¾	99⅞		6.65
Tennessee Valley 6 00	1000	98¾	99	-⅛	6.46
Tennessee Valley 6⅜ 05	2000	97½	97¾	-⅛	6.87
Tokyo Elec Power 6⅛ 03	1000	97½	97¾	-½	6.59
Toyota Motor 5⅝ 98	1500	99½	99⅝		5.98
United Kingdom 7¼ 02	3000	104¼	104⅜	-¼	6.39
Walt Disney 6⅜ 01	1300	99¼	99⅜		6.68
World Bank 6⅜ 05	1500	98	98⅛	-⅛	6.79
World Bank 8⅝ 99	1500	106⅞	107⅛	-⅛	5.88
DEUTSCHE MARK STRAIGHTS					
Austria 6½ 24	2000	95	95⅛	+⅛	6.91
Baden-Wuert L-Finance 6 99	2000	104¾	105⅛		3.99
Credit Foncier 7¼ 03	2000	107⅜	107⅞		5.82
Denmark 6⅛ 98	2000	103¾	103⅞		3.46
Depfa Finance 6⅛ 03	1500	103¼	103⅝		5.79
Deutsche Bk Fin 7½ 03	2000	108⅝	109	+⅛	5.82
EEC 6½ 00	2900	106⅝	106¾	+⅛	4.34
EIB 6¼ 00	1500	105¾	106	+⅛	4.41
Finland 7½ 00	3000	109½	109⅝	+⅛	4.31
Italy 7¼ 98	5000	104¾	104⅞		3.43
LKB Baden-Wuert 6½ 08	2250	101⅞	101½	+¼	6.33
Norway 6⅛ 98	1500	103⅞	104⅛	+⅛	3.47
Ontario 6¼ 04	1500	102	102⅛	+⅛	5.90
Spain 7¼ 03	4000	106¾	106⅞	+⅛	5.57
Sweden 8 97	2500	104⅜	104⅞		3.38
United Kingdom 7⅛ 97	5500	103⅞	104⅛		3.19
Volkswagen Intl Fin 7 03	1000	105¼	106⅜	-⅛	5.85
World Bank 5⅞ 03	3000	102⅛	102¼	+⅛	5.50
World Bank 7⅛ 05	3000	107⅝	107⅝	+¼	5.95
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	38	39½	+¼	5.14
Austria 4½ 00	1000	106⅜	106⅝	-⅛	2.46
Council Europe 4¾ 98	250	103½	103½		2.03
Denmark 4¼ 99	1000	105½	105⅝		2.29
EIB 3¾ 99	1000	103⅝	103¾		2.09
EIB 6¾ 04	300	115⅛	115½		4.45
Finland 7¼ 99	300	112¾	113¼		2.71
Iceland 7⅜ 00	100	115½	116⅛		3.19
Inter Amer Dev 4¾ 03	600	106½	106⅞	-¼	3.66
Ontario 6¼ 03	400	113½	114	+⅛	3.78
Quebec Hydro 5 08	100	103⅜	104¼	+⅛	4.61
SNCF 7 04	450	119½	120		4.08
Sweden 4¾ 03	500	108¼	106⅞		3.69
World Bank 0 21	700	28¾	29½		5.09
World Bank 7 01	600	115⅝	115⅞		3.11
YEN STRAIGHTS					
Belgium 5 99	75000	111⅛	111½	+⅛	1.29
Credit Foncier 4¾ 02	75000	112⅜	112⅝	+⅛	2.43
EIB 6⅝ 00	100000	117⅜	117⅝	+⅛	1.35
Ex-Im Bank Japan 4⅜ 03	105000	112¼	112½	+⅛	2.44
Inter Amer Dev 7¼ 00	30000	119⅞	120⅛	+¼	1.48
Italy 3½ 01	300000	107⅛	107¼	+¼	1.90
Italy 5 04	200000	116¼	116½	+½	2.75
Japan Dev Bk 5 99	100000	110⅞	111	+⅛	1.21
Japan Dev Bk 6½ 01	120000	121¾	121⅞	+⅛	1.83
SNCF 6¾ 00	30000	117½	117¾	+⅛	1.38
Spain 5¼ 02	125000	118⅝	118¾	+⅛	2.08
Sweden 4⅝ 98	150000	105⅛	105¼	+⅛	0.60
World Bank 5¼ 02	250000	116¾	116¾	+⅛	1.98
OTHER STRAIGHTS					
Credit Foncier 7.80 02 LFr	2000	104	105		6.78
EIB 7⅛ 05 LFr	3000	107	108		6.08
World Bank 8⅛ 04 LFr	2000				
ABN Amro 6⅝ 00 Fl	1000	108¼	108½	-⅛	4.61
Austria 6½ 99 Fl	1000	108	108⅛		3.95
Bell Canada 10⅝ 99 C$	150	113½	114	+⅛	5.17
British Columbia 7¾ 03 C$	1250	108¾	109	+⅛	6.22
Canada Mtg & Hsg 8¼ 99 C$	1000	108½	108¾	+⅛	4.99
EIB 10⅛ 98 C$	130	107⅞	108⅛	+⅛	4.12
Elec de France 9¾ 99 C$	275	112¼	112⅜	+⅛	5.10
KfW Int Fin 10 01 C$	400	116⅛	116½	+½	5.71
Nippon Tel Tel 10¼ 99 C$	200	113⅝	114	+⅛	5.21
Ontario 8 03 C$	1500	109¾	110	+¼	6.23
Ontario Hydro 10⅞ 99 C$	500	113½	113¾	+⅛	4.84
Oster Kontrollbank 10¼ 99 C$	150	113	113½	+⅛	5.07
Quebec Hydro 7 04 C$	1000	102¾	103	+⅛	6.64
Quebec Prov 10½ 98 C$	200	111¼	111⅝	+⅛	4.75
Council Europe 9 01 Ecu	1100	114¾	115⅛	+⅛	5.57
Credit Foncier 8⅜ 04 Ecu	1000	110⅞	111⅜	-¼	6.47
Denmark 8½ 02 Ecu	1000	113¼	113⅝		5.62
EC 6 00 Ecu	1100	103⅞	104¼		4.92
EIB 10 01 Ecu	1150	117⅜	117⅞	-⅛	5.23
Ferro del Stat 10⅛ 98 Ecu	500	106⅝	107⅛		4.36
Italy 10¾ 00 Ecu	1000	117⅛	117⅞		5.09
United Kingdom 9⅛ 01 Ecu	2750	114⅜	114¾	-⅛	5.25
AIDC 10 99 A$	100	106½	107		7.20
Comm Bk Australia 13¾ 99 A$	100	118¼	118¾		7.34
EIB 7¾ 99 A$	350	103⅞	103⅞	+¼	6.50
NSW Treasury Zero 0 20 A$	1000	15½	16¼	-¼	8.05
R & I Bank 7¾ 03 A$	125	100½	100⅞		7.64
State Bk NSW 9 02 A$	300	106⅝	107⅛	+⅛	7.56
Sth Aust Govt Fin 9 02 A$	150	106½	106⅞		7.59
Unilever Australia 12 98 A$	150	106⅝	107		7.00
Western Aust Treas 7⅝ 98 A$	100	101	101½	+⅛	6.89
Abbey Natl Treasury 8 03 £	1000	102⅛	102⅜	+⅛	7.56
British Land 8⅞ 23 £	150	94½	94¾	+⅛	9.68
Denmark 6¾ 98 £	800	100⅛	100¼		6.66
Depfa Finance 7⅛ 03 £	500	97⅝	97⅞	+⅛	7.57
EIB 8 03 £	1000	103⅜	103⅝	+⅛	7.33
Glaxo Wellcome 8¾ 05 £	500	104⅛	104¾	+⅛	8.01
Hanson 10⅜ 97 £	500	103⅜	103⅝		6.75
HSBC Holdings 11.69 02 £	153	117	117¼	+¼	7.89
Italy 10½ 14 £	400	119	119⅜	+¼	8.38
Japan Dev Bk 7 00 £	200	100¼	100½	+¼	6.92
Land Secs 9½ 07 £	200	107¾	108	+⅛	8.35
Ontario 11⅛ 01 £	100	113¼	113½	+¼	7.40
Powergen 8⅞ 03 £	250	105¼	105½	+¼	7.79
Severn Trent 11½ 99 £	150	110½	110¾	+¼	7.09
Tokyo Elec Power 11 01 £	150	113⅜	113⅝	+¼	7.45
TCNZ Fin 9¼ 02 NZ$	75	106⅝	107⅛	+¼	7.76
World Bank 9 99 NZ$	250	102⅞	103⅛	+⅛	7.75
Credit Local 6 01 FFr	8000	103⅞	104⅛		5.11
Denmark 5½ 99 FFr	7000	103⅜	103⅝		4.28
Elec de France 8¾ 22 FFr	3000	122¼	122⅝	+¼	6.88

FLOATING RATE NOTES

	Issued	Bid	Offer	C.cpn
Abbey Natl Treasury -1/16 99	1000	99.94	100.02	5.5938
Bankamerica ⅛ 99	750	99.97	100.05	5.7500
Canada -¼ 99	2000	99.66	99.74	5.2852
CCCE 0 06 Ecu	200	99.62	99.76	4.2578
Commerzbk O/S Fin -⅛ 98	750	99.82	99.89	5.4062
Credit Lyonnais 1/16 00	300	98.22	98.54	5.9375
Dresdner Finance 1/16 98 DM	1000	100.00	100.10	3.3750
Fed Nat Mort -1/16 00	1000	99.75	99.84	5.4492
Finland -⅛ 99	1500	99.95	100.01	5.4609
Halifax BS 0 99	500	100.12	100.19	5.6562
IMI Bank Intl ⅛ 99	500	100.48	100.55	5.7812
Italy 1/16 99	1500	100.32	100.37	5.6875
Italy ⅛ 98 Ecu	1500	100.25	100.31	4.5625
LKB Baden-Wuert Fin -⅛ 98	1000	99.92	99.99	5.4766
Lloyds Bank Perp S 0.10	600	87.19	88.19	5.8295
Malaysia 1/16 05	650	99.81	99.97	5.6875
New Zealand -⅛ 99	1000	99.93	100.01	5.4727
Nova Scotia 1/16 99	500	99.99	100.06	5.7266
Ontario 0 99	2000	100.04	100.11	5.5000
Portugal 1/16 99 DM	2500	100.32	100.38	3.1875
Quebec Hydro 0 99	500	99.70	99.80	5.5625
Renfe 0 98	500	99.79	99.92	5.4375
Spain -1/16 02 DM	2000	100.12	100.18	3.3477
State Bk Victoria 0.05 99	125	99.98	100.11	5.8469
Sweden -⅛ 01	2000	99.92	100.00	5.4141
United Kingdom -⅛ 01	2000	99.76	99.80	5.3750

CONVERTIBLE BONDS

	Issued	Conv. Price	Bid	Offer	Prem.
Allied-Lyons 6¾ 08 £	200	6.04	98½	99½	+25.17
Gold Kalgoorlie 7½ 00	65	1.37	114	115¾	-14.73
Grand Metropolitan 6½ 00	710	4.37	119½	120¾	+4.14
Hanson America 2.39 01	420	17.949	87	87½	
Hong Kong Land 4 01	410	31.05	87¼	88	-12.52
Land Secs 6¾ 02 £	84	8.72	103	105	-3.06
Lasmo 7¾ 05 £	90	5.64	94½	95⅝	
MBL Intl Fin 3 02	2000	22	111¼	111⅞	+4.71
Mitsui Bank 2⅝ 03	200	2332.6	78½	80½	+42.82
Ogden 6 02	85	39.077	92½	93¾	
Pennzoil 4¾ 03	500	58.8097	117	118	+2.32
Sandoz Capital 2 02	750	1302.26	111¼	112	+6.39
Sappi BVI Finance 7½ 02	250	76	92½	93½	
Sapporo 1⅛ 00	40000	1059.4	103½	104½	+6.45
Sumitomo Bank 3½ 04	300	3606.9	83⅝	84⅝	+31.38
Sun Alliance 7¼ 08 £	155	3.9	111⅞	113⅛	+18.88
Transatlantic Hldgs 5½ 09 £	250	5.05	85¼	86¼	+10.85

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
Conversion 10pc 1996	9.88	6.62	100¼	-1/16	103⅜	100¼
Treas 13¼pc 1997‡‡	13.03	5.84	101⅞	—	107⅞	100½
Exch 10½pc 1997	10.45	5.75	100⅞	-1/16	107⅛	100⅞
Treas Cnv 7pc 1997‡‡	6.85	5.99	100¼	+1/16	101⅝	100¼
Treas 8¾pc 1997‡‡	8.56	6.04	102⅛	-1/16	107⅞	102⅛
Exch 15pc 1997	13.81	6.08	108⅝xd	-1/32	115⅝	102⅞
Exch 9¾pc 1998	9.37	6.25	104⅛	-1/16	106⅞	103⅜
Treas 7¼pc 1998‡‡	7.18	6.29	101⅛	+1/16	109⅝	100⅞
Treas 6¾pc 1995-98‡‡	6.75	5.45	100	—	104⅛	99
Treas 15½pc '98‡‡	13.34	6.45	116⅛	+1/16	123⅛	116
Exch 12pc 1998	10.87	6.53	110⅜	+1/16	114⅝	110⅛
Treas 9½pc 1999‡‡	8.97	6.57	105⅞	+1/16	108⅛	105⅛
Treas Flg Rate 1999	-	-	99⅞	—	100⅞	99⅞
Exch 12¼pc 1999	10.90	6.62	112⅜	+⅛	116⅝	110⅞
Treas 10½pc 1999	9.84	6.64	108⅜	+1/16	112⅛	108⅜
Treas 6pc 1999‡‡	6.09	6.57	98⅝	+1/16	99¼	95⅞
Conversion 10¼pc 1999	9.36	6.75	109½	+1/16	112⅝	108⅜
Conv 9pc 2000‡‡	8.45	6.77	106⅜	+1/16	108⅞	104⅝
Treas 13pc 2000	10.88	6.89	119⅝	+1/16	124⅝	119⅛
Treas 14pc 1998-1	12.59	6.38	111⅛	+1/16	117⅛	110⅝
Treas 8pc 2000‡‡	7.70	6.88	103⅞	+⅛	105⅝	101⅛
Treas Flg Rate 2001	5.70	-	99⅞	—	99⅞	99⅜
Treas 10pc 2001	9.01	6.98	111⅛	+¼	114	109⅞
Five to Fifteen Years						
Treas 7pc 2001‡‡	7.02	7.02	99¾	+1/16	101⅛	98½
Treas 9¾pc 2002	8.70	7.18	112⅛	+⅛	114⅝	108⅞
Treas 8pc 2003‡‡	7.68	7.19	104⅛	+1/16	105⅞	99⅞
Treas 10pc 2003	8.73	7.26	114⅝	+1/16	117⅛	39
Treas 11½pc 2001-4	9.86	7.08	116⅝	+¼	121⅛	114⅛
Funding 3½pc 1999-4	4.21	6.25	83⅛	-⅛	84⅞	78⅛
Conversion 9½pc 2004	8.45	7.40	112⅛xd	+1/16	114⅛	107⅞
Treas 6¾pc 2004‡‡	7.02	7.38	96⅛	+⅛	97⅛	91⅛
Conv 9½pc 2005	8.44	7.47	112⅛	+⅛	114⅝	108⅛
Treas 12½pc 2003-5	9.75	7.31	128⅛	+⅛	131⅛	123⅞
Treas 8½pc 2005‡‡	7.97	7.46	106⅝	+1/16	108⅜	101⅞
Treas 7½pc 2006‡‡	7.61	7.51	99⅞	+⅛	101⅞	94⅞
Treas 7¾pc 2006‡‡	7.65	7.54	101⅜	+1/16	103¼	96⅛
Treas 8pc 2002-6‡‡	7.81	7.40	102⅜	-1/16	104⅝	97⅞
Treas 11¾pc 2003-7	9.64	7.30	121⅞	+⅛	125⅛	118⅜
Treas 8½pc 2007‡‡	7.97	7.59	106⅝	+⅛	108⅞	101⅛
Treas 9pc 2008‡‡	8.14	7.62	110⅜	+⅛	112⅞	103⅞
Treas 8pc 2009	7.83	7.69	102⅛	-⅛	104½	96⅞
Treas 6 1/4pc 2010‡‡	7.19	7.79	86⅞	+⅛	88⅛	81¼
Conv 9pc Ln 2011‡‡	8.14	7.78	110½	+⅛	112⅞	104⅝
Over Fifteen Years						
Treas 9pc 2012‡‡	8.14	7.81	110⅝	+⅛	113⅛	104⅞
Treas 5½pc 2008-12‡‡	6.63	7.60	82⅞	+1/16	82⅞	75⅞
Treas 8pc 2013‡‡	7.90	7.86	101⅛	+⅛	103⅞	95⅛
Treas 7¾pc 2012-15‡‡	7.86	7.86	98⅝	+1/16	101⅞	93⅛
Treas 8pc 2015‡‡	7.91	7.85	101⅛	+1/16	104⅛	95⅛
Treas 8¾pc 2017‡‡	8.06	7.91	108¼	+⅛	111⅝	102⅛
Exch 12pc 2013-17	8.69	7.88	138⅛	+⅛	141⅜	130⅞
Treas 8pc 2021‡‡	7.90	7.88	101⅛	+⅛	103⅛	95⅞
Undated						
Consols 4pc	8.06	-	49⅝	+¼	50⅞	48¾
War Loan 3½pc‡‡	7.94	-	44⅛	+1/16	46⅛	41⅛
Conv 3½pc '61 Aft	5.78	-	60⅛	+1/16	62¼	58⅛
Treas 3pc '66 Aft	8.12	-	36⅞	+1/16	38⅛	34⅛
Consols 2½pc	7.84	-	31⅞	+⅛	33⅛	29⅞
Treas. 2½pc	8.01	-	31⅛	+¼	32⅞	29⅛

Index-Linked (b)	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
4⅝pc '98‡‡ (135.6)	0.33	2.20	114¼xd	+⅛	114⅝	111⅛
2½pc '01 (78.3)	2.58	3.15	185⅛	+⅛	185⅞	176
2½pc '03 (78.8)	2.83	3.27	181⅛	+1/16	181¼	171⅞
4⅛pc '04‡‡ (135.6)	2.92	3.32	118⅛	+1/16	118⅞	112⅞
2pc '06 (69.5)	3.09	3.40	190⅛	+½	191⅛	179⅞
2½pc '09 (78.8)	3.27	3.47	171⅛	+⅛	172	161⅛
2½pc '11 (74.6)	3.29	3.51	176⅞	+⅛	177⅞	166⅛
2½pc '13 (89.2)	3.35	3.55	145⅞	+⅛	146⅞	136⅛
2½pc '16 (81.6)	3.41	3.59	154⅞	+⅛	155⅞	145⅛
2½pc '20 (83.0)	3.47	3.62	148¼	+⅛	149⅛	138⅞
2½pc '24‡‡ (97.7)	3.47	3.61	123⅛	+⅛	124⅞	115⅛
4⅛pc '30‡‡ (135.1)	3.47	3.62	121⅛	+⅛	122⅞	113⅞

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for February 1996: 150.9 and for September 1996: 153.8.

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Asian Dev 10¼pc 2009	8.69	7.94	118	—	120	111⅛
B'ham 11½pc 2012	9.08	8.45	126½xd	—	128	119½
Ireland Cap 8½pc '10	8.04	-	105¾	—	105¾	104¼
9pc Cap 1996	8.85	-	104	—	104	104
13pc '97-2	11.72	-	110⅞	—	110⅞	110⅞
Leeds 13½pc 2006	10.11	-	133½	—	136½	129
Liverpool 3½pc Irred	8.75	-	40	—	41	33
LCC 3pc '20 Aft	8.82	-	34	—	38	32½
Manchester 11½pc 2007	9.39	8.20	122½xd	—	124½	117
Met. Wtr. 3pc 'B'	3.75	6.70	80	—	80	70¼
N'wide Anglia 3⅞pc 2021	-	4.23	143⅛	—	143½	133
4⅛pc IL 2024	-	4.35	138⅛	—	140⅝	130½
Utd Mex States 16½pc 2008	12.22	-	135	—	136½	120

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. ... yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Sterling continues its autumn rise

MARKETS REPORT

By Simon Kuper

Sterling closed just off a 13-month high against the dollar in London trading yesterday, after recovering from an early fall.

Both Anglo-Saxon currencies gained against the yen.

The dollar lost ground against the D-Mark due to profit-taking in morning trading, but recovered to close just one tenth of a pfennig down at DM1.535. The German currency was buoyed by foreign demand for shares in the forthcoming partial privatisation of Deutsche Telekom, and by a stall in the recent oil price surge.

■ Switzerland would prefer to use monetary policy rather than a currency peg as a way of stopping the Swiss franc from gaining against a future single European currency,

Mr Jean-Pierre Roth, vice president of the Swiss National Bank, said yesterday.

A peg might drive Swiss interest rates higher than necessary, Mr Roth said. Also, a fixed currency target might fail to hold.

His comments seemed to confirm what the markets already believe: that the Swiss would be happy with a managed depreciation of their currency, and that they are worried about the effects a weak Euro could have on it. The Swiss franc is seen as a safe haven from any turmoil over European monetary union.

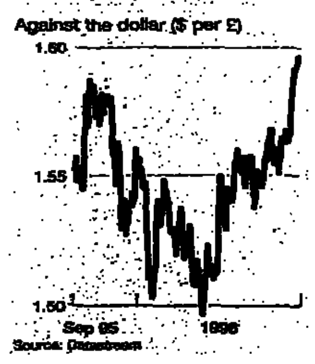
Mr Neil MacKinnon, chief economist at Citibank in London, said yesterday that the Swiss franc, which has traded in a range of SFr0.80-0.84 to the D-Mark since early 1994, could hit or even break the SFr0.84 level soon.

■ Sterling just keeps on rolling along. It bounced back after Monday's profit taking to rise nine tenths of a pfennig against the D-Mark to DM2.452 and three fifths of a cent against the dollar to $1.597.

Mr MacKinnon said the pound was boosted by a Confederation of British Industry survey showing a recovery in the weak manufacturing sector. Other analysts pointed to yesterday's successful gilts auction. The British currency has appreciated almost 6 per cent since early August, mainly buoyed by the UK's economic recovery.

The level of expected future interest rates fell yesterday. Sterling short futures contracts for June 1997 rose 13 basis points and are now pricing in base rates of about 6.5 per cent, compared with 5.75 per cent at present.

Sterling



■ The dollar had a mixed day in London, closing down against the D-Mark but up another Y0.2 against the yen at Y112.9. The yen suffered in part from yesterday's weak Japanese diffusion index of leading and coincident economic indicators. Also, many in the markets believe that the Bank of Japan will keep interest rates low.

Currency strategists said the next test of the dollar against the yen was the so-called "Bentsen level" of Y113.6, named after the former US treasury secretary Lloyd Bentsen and last reached in January 1994.

But Mr Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, said the dollar was overvalued. "It's moving away from its interest rate support, and trade terms are going against it." Furthermore, after the US election, Washington might try to talk up the yen as it became more willing to criticise Japan's economic policy. "Dollar-yen could reach a level where the US will become concerned about Japan gaining a competitive advantage," Mr Meggyesi said.

■ Italy's hopes of being among the first group of countries to join the single European currency suffered another German rebuff yesterday. Bonn denied a claim by Italian prime minister Mr Romano Prodi that Chancellor Helmut Kohl wants Italy to be in the first wave.

"Those nations that fulfil the objective criteria will take part," said a German government spokeswoman. In the last week most currency analysts have come to believe that Germany wants to bar Italy and Spain from the first wave of EMU. However, this belief has not caused a collapse in the "Club Med" currencies. They hardly moved against the D-Mark yesterday.

■ **Pound in New York**

Oct 22	---Latest---	-- Prev. close --
£ spot	1.5955	1.5930
1 mth	1.5948	1.5922
3 mth	1.5937	1.5910
1 yr	1.5873	1.5836

■ **OTHER CURRENCIES**

Oct 22	£	$
Czech Rp	43.3953 - 43.4624	27.1730 - 27.1980
Hungary	249.068 - 249.304	155.960 - 156.010
Iran	4794.00 - 4791.00	3000.00 - 3000.00
Kuwait	0.4786 - 0.4792	0.2998 - 0.2999
Poland	4.5139 - 4.5207	2.8285 - 2.8290
Russia	8684.49 - 8694.72	5438.00 - 5441.00
U.A.E.	5.8626 - 5.8703	3.6710 - 3.6735

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POUND SPOT FORWARD AGAINST THE POUND

Oct 22		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2505	+0.0619	420 - 590	17.2812	17.1362	17.207	3.0	17.1505	2.3	-	-	104.5
Belgium	(BFr)	50.5130	+0.1736	852 - 607	50.5607	50.1810	50.393	2.9	50.168	2.7	49.148	2.7	105.8
Denmark	(DKr)	9.3877	+0.0336	832 - 922	9.3922	9.3295	9.3704	2.2	9.3388	2.1	9.2005	2.0	107.2
Finland	(FM)	7.3456	+0.0297	373 - 538	7.3538	7.3030	-	-	-	-	-	-	84.6
France	(FFr)	8.2875	+0.0315	830 - 919	8.2929	8.2377	8.2708	2.4	8.2401	2.3	8.1024	2.2	108.5

† Rates for Oct 21. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.7985	-0.0066	965 - 004	10.8060	10.7560	10.7788	2.2	10.7385	2.2	10.5435	2.4	104.4
Belgium	(BFr)	31.6200	-0.03	000 - 400	31.6470	31.5080	31.555	2.5	31.4225	2.5	30.8025	2.6	105.6
Denmark	(DKr)	5.8765	-0.0047	755 - 775	5.8831	5.8575	5.8676	1.8	5.8492	1.9	5.7675	1.9	106.6
Finland	(FM)	4.5982	-0.0015	944 - 019	4.6026	4.5875	4.5894	2.3	4.5707	2.4	4.4882	2.4	84.1
France	(FFr)	5.1878	-0.003	866 - 889	5.1940	5.1717	5.1791	2.0	5.161	2.1	5.0788	2.1	108.1

† SDR rate per $ for Oct 21. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 21: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

October 22	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3 1/16	3 1/16	3 1/16	3 1/16	3 1/16	6.00	2.50	-
week ago	3 1/32	3 1/16	3 1/16	3 1/16	3 1/16	6.00	2.50	-
France	3 11/16	3 13/32	3 13/32	3 1/2	3 19/32	3.35	-	4.75
week ago	3 3/8	3 13/32	3 1/2	3 3/8	3 21/32	3.35	-	4.75
Germany	3 1/32	2 7/8	2 7/8	3 1/16	3 1/8	4.50	2.50	3.00
week ago	3	2 7/8	3 1/16	3 1/16	3 1/8	4.50	2.50	3.00
Ireland	5 3/8	5 3/8	5 3/8	5 3/8	5 13/16	-	-	6.25
week ago	5 1/2	5 3/8	5 1/2	5 1/2	5 5/8	-	-	6.25
Italy	8 1/4	8 3/8	7 13/16	7 13/16	7 1/4	-	8.25	8.38
week ago	8 3/8	8 3/8	8 1/16	7 13/16	7 15/32	-	8.25	8.38
Netherlands	2 3/8	2 27/32	2 27/32	2 29/32	3 1/16	-	3.00	3.30
week ago	2 7/8	2 27/32	2 27/32	2 27/32	3 1/32	-	3.00	3.30
Switzerland	1 1/4	1 13/32	1 13/32	1 3/8	1 13/32	-	1.00	-
week ago	1 3/8	1 13/32	1 15/32	1 3/8	1 3/8	-	1.00	-
US	5 1/4	5 3/8	1 15/32	5 17/32	5 3/4	-	5.00	-
week ago	5 11/16	5 3/8	5 7/16	5 3/8	5 13/16	-	5.00	-
Japan	7/16	13/32	17/32	15/32	17/32	-	0.50	-
week ago	7/16	15/32	15/32	1/2	17/32	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 3/8	5 17/32	5 5/8	5 29/32	-	-	-
week ago	-	5 3/8	5 17/32	5 5/8	5 27/32	-	-	-
US Dollar CDs	-	5.10	5.10	5.16	5.39	-	-	-
week ago	-	5.10	5.15	5.24	5.44	-	-	-
ECU Linked Ds	-	4 1/8	4 3/16	4 1/8	4 3/16	-	-	-
week ago	-	4 1/8	4 1/8	4 1/8	4 3/16	-	-	-
SDR Linked Ds	-	3 3/8	3 7/16	3 7/16	3 19/32	-	-	-
week ago	-	3 3/8	3 7/16	3 3/8	3 17/32	-	-	-

$ LIBOR Interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 22	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 1/8 - 2 31/32	3 1/16 - 2 31/32	3 1/32 - 2 31/32	3 1/8 - 3 1/32	3 3/16 - 3 1/16	3 3/8 - 3 5/32
Danish Krone	3 13/32 - 3 1/4	3 21/32 - 3 15/32	3 5/8 - 3 17/32	3 11/16 - 3 17/32	3 3/4 - 3 19/32	3 29/32 - 3 3/4
D-Mark	3 1/8 - 2 7/8	3 1/8 - 3	3 1/8 - 3	3 1/8 - 3	3 1/8 - 3	3 1/4 - 3 1/8
Dutch Guilder	2 7/8 - 2 3/4	2 7/8 - 2 3/4	2 27/32 - 2 3/4	2 7/8 - 2 13/16	2 29/32 - 2 13/16	3 1/16 - 3
French Franc	3 13/32 - 3 9/32	3 3/8 - 2 1/4	3 15/32 - 3 11/32	3 15/32 - 3 11/32	3 19/32 - 3 15/32	3 21/32 - 3 17/32
Portuguese Esc.	7 - 6 13/16	7 - 6 15/16	6 31/32 - 6 13/16	6 27/32 - 6 3/4	6 23/32 - 6 5/8	6 21/32 - 6 19/32
Spanish Peseta	6 13/16 - 6 27/32	6 27/32 - 6 17/32	6 27/32 - 6 25/32	6 7/8 - 6 3/4	6 3/4 - 6 5/8	6 11/16 - 6 9/16
Sterling	5 7/8 - 5 3/4	5 13/16 - 5 11/16	5 29/32 - 5 27/32	6 1/32 - 5 31/32	6 3/16 - 6 1/8	6 13/32 - 6 11/32
Swiss Franc	1 9/16 - 1 7/16	1 7/8 - 1 7/16	1 5/8 - 1 1/2	1 11/16 - 1 9/16	1 11/16 - 1 9/16	1 3/4 - 1 5/8
Can. Dollar	3 7/16 - 3 3/8	3 1/2 - 3 3/8	3 15/32 - 3 13/32	3 5/16 - 3 1/16	3 21/32 - 3 17/32	3 7/8 - 3 3/4
US Dollar	5 1/4 - 5	5 3/8 - 5 1/4	5 3/8 - 5 1/4	5 17/32 - 5 13/32	5 5/8 - 5 1/2	5 13/16 - 5 11/16
Italian Lira	8 3/4 - 7 7/8	8 5/16 - 8 1/16	8 1/4 - 8 3/32	8 1/32 - 7 15/16	7 31/32 - 7 3/4	7 15/16 - 7 3/8
Yen	1/2 - 3/8	15/32 - 11/32	15/32 - 11/32	15/32 - 11/32	15/32 - 3/8	3/4 - 5/8
Asian $Sing	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 3/8 - 3 1/4	3 3/8 - 3 1/4	3 1/2 - 3 3/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Dec	96.41	96.44	+0.02	96.45	96.39	12,975	56,115
Mar	96.39	96.41	+0.01	96.43	96.36	7,878	48,146
Jun	96.35	96.38	+0.03	96.39	96.32	574	27,837

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.85	96.86	+0.01	96.86	96.84	14368	223996
Mar	96.85	96.88	+0.02	96.88	96.85	28721	200884
Jun	96.71	96.79	+0.06	96.80	96.71	20114	160175
Sep	96.52	96.61	+0.07	96.61	96.52	19123	148725

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.43	92.44	+0.05	92.51	92.40	18119	63426
Mar	92.97	93.00	+0.07	93.08	92.94	14675	44855
Jun	93.27	93.32	+0.07	93.37	93.27	3406	31547
Sep	93.39	93.44	+0.06	93.50	93.38	1528	24370

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.25	98.28	+0.04	98.30	98.24	5189	33829
Mar	98.26	98.28	+0.04	98.31	98.26	3973	26527
Jun	98.18	98.20	+0.04	98.22	98.16	1596	14367
Sep	97.95	97.99	+0.04	98.01	97.95	1243	5035

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.44	99.44	+0.01	99.44	99.44	20	na
Mar	99.37	99.36	+0.01	99.37	99.35	470	na
Jun	99.24	99.24	+0.03	99.25	99.24	615	na

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.85	95.89	+0.02	95.90	95.85	916	7819
Mar	95.86	95.91	+0.04	95.92	95.88	350	4631
Jun	95.83	95.87	+0.02	95.88	95.83	234	2967
Sep	95.74	95.79	+0.03	95.80	95.73	248	2533

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 22		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.59	16.41	4.854	1.968	4845	5.444	20.55	488.0	408.4	20.89	4.001	1.980	4.255	3.162	357.0	2.526
Denmark	(DKr)	53.80	10	8.828	2.612	1.058	2607	2.929	11.06	263.1	219.7	11.24	2.153	1.065	2.289	1.701	192.1	1.359
France	(FFr)	60.94	11.33	10	2.958	1.198	2952	3.318	12.52	298.0	248.9	12.73	2.438	1.207	2.593	1.927	217.5	1.540
Germany	(DM)	20.60	3.829	3.380	1	0.405	998.0	1.122	4.233	100.7	84.14	4.303	0.824	0.408	0.876	0.651	73.53	0.520
Ireland	(I£)	50.87	9.454	8.346	2.469	1	2464	2.769	10.45	248.7	207.8	10.62	2.035	1.007	2.164	1.608	181.6	1.285
Italy	(L)	2.064	0.384	0.339	0.100	0.041	100.	0.112	0.424	10.09	8.431	0.431	0.083	0.041	0.088	0.065	7.368	0.052
Netherlands	(Fl)	18.37	3.414	3.014	0.892	0.361	889.8	1	3.775	89.82	75.02	3.836	0.735	0.364	0.781	0.581	65.56	0.464
Norway	(NKr)	48.66	9.044	7.985	2.362	0.957	2357	2.649	10	238.0	198.7	10.16	1.947	0.963	2.070	1.539	173.7	1.229
Portugal	(Es)	20.45	3.801	3.355	0.993	0.402	990.7	1.113	4.202	100.	83.52	4.271	0.818	0.405	0.870	0.647	73.00	0.517
Spain	(Pta)	24.48	4.551	4.017	1.189	0.481	1186	1.333	5.032	119.7	100.	5.114	0.980	0.485	1.042	0.774	87.40	0.619
Sweden	(SKr)	47.88	8.899	7.856	2.324	0.941	2319	2.607	9.839	234.1	195.5	10	1.916	0.948	2.037	1.514	170.9	1.209
Switzerland	(SFr)	24.99	4.645	4.101	1.213	0.491	1211	1.361	5.136	122.2	102.1	5.220	1	0.495	1.063	0.790	89.21	0.631
UK	(£)	50.51	9.388	8.288	2.452	0.993	2447	2.750	10.38	247.0	206.3	10.55	2.021	1	2.149	1.597	180.3	1.276
Canada	(C$)	23.50	4.369	3.857	1.141	0.462	1139	1.280	4.830	114.9	96.00	4.909	0.940	0.465	1	0.743	83.90	0.594
US	($)	31.63	5.879	5.190	1.535	0.622	1532	1.722	6.500	154.7	129.2	6.606	1.265	0.626	1.346	1	112.9	0.799
Japan	(Y)	28.01	5.207	4.597	1.360	0.551	1357	1.525	5.757	137.0	114.4	5.851	1.121	0.555	1.192	0.886	100.	0.708
Ecu		39.58	7.357	6.495	1.922	0.778	1918	2.155	8.135	193.6	161.7	8.268	1.584	0.784	1.684	1.252	141.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6539	0.6543	-	0.6550	0.6542	18,329	73,486
Mar	0.6585	0.6584	+0.0006	0.6587	0.6585	692	3,272
Jun	0.6623	0.6626	-	0.6626	0.6623	61	2,299

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8941	0.8933	-0.0024	0.8933	0.8924	10,848	73,114
Mar	0.9043	0.9046	-0.0026	0.9046	0.9043	70	2,175
Jun	-	0.9157	-	-	-	1	216

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7962	0.7959	+0.0042	0.7970	0.7958	12,722	48,656
Mar	0.8042	0.8042	+0.0052	0.8042	0.8042	73	2,439
Jun	-	0.8110	-	0.8110	-	2	803

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5910	1.5980	+0.0078	1.5972	1.5942	7,632	56,991
Mar	1.5936	1.5960	+0.0066	1.5936	1.5936	3	274
Jun	-	1.5930	+0.0054	1.5930	-	4	2

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

BASE LENDING RATES

COMMODITIES AND AGRICULTURE

Australian grain production set for peak year

By Nikki Tait in Sydney

Australia's winter grain production is set to reach a record this year, thanks to mild weather and above-average rainfall.

According to the latest forecasts, the harvest will top the 30m tonnes produced in the previous peak year of 1983-84. Abare, the Australian government-owned forecasting agency, says total winter crop production should reach about 31.8m tonnes. Wheat production alone is likely to be 20.9m tonnes, about 4m tonnes more than in 1995-96.

Abare said the acreage planted to winter grains was some 700,000 hectares less than in 1983-84, but the outlook was for "above-average" yields, as plantings extended into areas used for livestock during the recent drought in eastern states.

It added that fears of widespread water-logging, notably in western Australia, had receded, but warned that mild conditions and further rains would be needed by late November if its projections were to be met.

The rebound in Australian wheat production has been marked. In 1994-95, when drought conditions were biting, output fell to 8.9m tonnes. It then recovered to 16.9m tonnes last year, and the 1996-97 forecast of 20.9m tonnes is an upgrading of Abare's earlier 18.8m tonne prediction.

With record acreage planted and irrigation water plentiful, cotton production is also heading for a new high of 2.6m bales (582,000 tonnes). The previous record was set in 1991-92, when 2.2m bales were produced.

Farmers' enthusiasm is likely to be damped by the recent fall in wheat prices in the main wheat-growing countries. Earlier this week, the Australian Wheat Board – which handles all export sales – cut its estimated pool returns by a further A$5 a tonne. The benchmark return for Australian Standard White wheat is now A$190 a tonne, about 38 per cent down on estimates made at end-May.

Mr Ron Story, the board's general manager, said: "We've seen 1m tonnes added to the estimated size of the crop in the last month and the bigger the crop grows, the more we will fight with competitors to hold our market share or face increased carry-over costs."

Wheat and maize prices continue to fall in face of bumper crop

Grain futures prices continued their recent slide yesterday as wheat lost five cents to $3.95 a bushel and maize was down between one cent and two cents a bushel in mid-session trading at the Chicago Board of Trade, Deborah Hargreaves writes.

Futures prices have tumbled in recent weeks as the world looks like reaping a bumper crop of most grains. But although prices are far from their peaks earlier this year, traders say this has not encouraged a pick-up in demand.

"The market is struggling to find enough demand for wheat and corn," said Mr Warren King, at Cargill Investor Services in Chicago.

Traders had expected a large crop from Australia and were not surprised at yesterday's figures, but said current wet weather could affect the quality of the grain.

Mr Dan Basse, at AgResources, the Chicago analysts, believes the markets are close to their seasonal lows. He thinks wheat could fall another 10 cents to $3.85 a bushel.

Mining groups spend record sums

By Kenneth Gooding, Mining Correspondent

Mining companies are spending record sums on exploration as huge areas of the world open up for the first time in decades, according to a new report.

The study by Metals Economics Group, the Canadian consultancy, says governments are competing to attract mining investment. It estimates worldwide spending on non-ferrous mineral exploration this year will jump by about 30 per cent from the US$3.55bn estimated for 1995, to $4.6bn.

Latin America is attracting most investment – and for the third successive year is the industry's favourite area for exploration. MEG suggests spending will jump more than 27 per cent from $785m in 1995 to $963m.

The US continues to slip down the list. It is often criticised as an area where environmentalists can delay approval processes for some years. This year, MEG suggests, it will be overtaken by Pacific/south-east Asia and fall to sixth place. But even in the US, exploration spending is increasing – by $49m this year to $343m.

Australia is in second place, with total budgets up 26 per cent to US$666m. Canada, where exploration was boosted by the discovery of the nickel-cobalt deposit at Voisey's Bay, Labrador, remains in third place, with spending set to rise 40 per cent to US$460.8m.

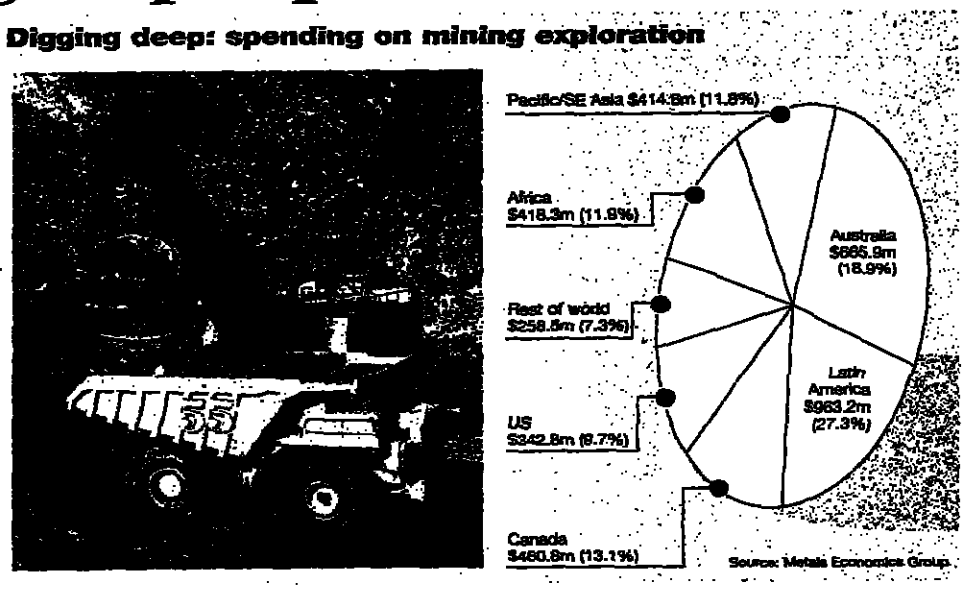
The Pacific/south-east Asia region is showing the biggest percentage increase – of 61 per cent to $414.6m.

The 14 biggest spending companies in 1996, ranging from $280m to $52m, are (in decreasing order) RTZ-CRA, the Anglo-Australian group; BHP Minerals of Australia; Barrick Gold of Canada; Echo Bay of the US; WMC of Australia; Placer Dome of Canada; Newmont of the US; Minorco of Luxembourg (an Anglo American-De Beers unit); De Beers of South Africa; Phelps Dodge of the US; Newcrest of Australia; Gencor of South Africa; Freeport-McMoRan of the US; and Anglo American Corporation of South Africa.

These groups account for 38 per cent – or $1.34bn – of the exploration spending by the companies surveyed.

Corporate Exploration Strategies. Metals Economics Group, PO Box 2206, Halifax, Nova Scotia B3J 3C4, Canada. US$8,000

Digging deep: spending on mining exploration



Downturn in crude oil seen as consolidation

MARKETS REPORT

By Deborah Hargreaves and Kenneth Gooding

Crude oil prices slipped yesterday after Monday's surge, but traders said the market was consolidating rather than collapsing.

"The market still looks solid," said Mr Lindsay Horn, executive director of energy derivatives at Lehman Bros in London. "Crude has performed extraordinarily well lately and could still go higher, especially if the weather turns cold."

Brent crude for December delivery was down 30 cents at $24.35 a barrel in late trading in London. West Texas Intermediate December futures on the New York Mercantile Exchange had slipped by 31 cents to $25.15 a barrel by mid-session.

WTI tested $26 a barrel on Monday, but met technical resistance. Heating oil futures also fell as supply fears in the US eased, but stocks remain low and traders say cold weather could push prices higher.

Traders were watching for the release of weekly stock figures from the American Petroleum Institute after the market's close to see if heating oil stocks – at historic lows – were being rebuilt. US refineries are running at maximum output of around 3.5m barrels a day to try to fuel the surge in demand.

Last Friday, oil companies met the US government to discuss the low stock levels. Ms Hazel O'Leary, US energy secretary, said the government did not want to sell oil from its strategic reserve. But the sale of some 10m barrels is planned soon as a budgetary measure. This could depress oil prices in the short term.

The London Metal Exchange reported copper stocks had fallen again by more than 13,000 tonnes, to their lowest since August 1995. Reaction was muted because some traders suggested stock moved to China would be on its way back to LME warehouses.

The Bloomsbury Minerals Economics consultancy said copper prices would remain firm, or even strengthen, until some of the copper heading for China returned. Mr Peter Hollands of BME suggested the global market now had a surplus of supply that would reach about 100,000 tonnes this year.

Coffee futures prices on the London International Financial and Options Exchange were sharply higher, with November futures up $49 to $1,549 a tonne after a bigger than expected draw in US stocks.

Cocoa prices slipped in mid-morning trading to touch a low of £977 a tonne, but the market recovered later in the day to close unchanged at £986 a tonne.

Freight rates continued to rise, with the Baltic freight index up another 23 points yesterday to 1,199 – its highest level for four months.

LME WAREHOUSE STOCKS (As at Thursday's close) tonnes

Aluminium	-2,875	to 983,000
Aluminium alloy	-320	to 79,420
Copper	-13,075	to 159,350
Lead	+300	to 116,550
Nickel	+120	to 41,670
Zinc	-1,750	to 547,100
Tin	+230	to 10,015

Big jump forecast in price of lead

By Kenneth Gooding

A big jump in the price of lead – used mainly in the making of batteries – is being forecast by some analysts. However, they admit prices will depend on the level of Chinese exports.

China supplied about two-thirds of the west's refined lead imports last year, according to the International Lead & Zinc Study Group, an intergovernmental body, though volume fell from 1994's peak of 172,000 tonnes to 161,000 tonnes.

Analysts at Billiton Metals, a Gencor subsidiary, suggest the lead market is carrying "lower than desirable stocks", equivalent to only five weeks consumption. Recent reports indicate that Chinese exports have fallen from their peak, analysts Ms Karen Norton and Mr Angus MacMillan say. "Should these exports fail to pick up again, this market has the potential to tighten considerably."

Billiton is forecasting a 76,000 tonnes refined lead supply deficit in the west this year, compared with 77,000 tonnes in 1995, and a 25,000 tonnes deficit in 1997.

"We expect the market will move gradually from deficit, to balance, to surplus," Billiton adds. "So our expectation is that prices will peak in the first half of the year." It says that the London Metal Exchange cash price is likely next year to be unchanged on average from the 36 US cents a pound ($793.50 a tonne) it forecasts for 1996.

The ILZSG has predicted that there will be a global lead surplus next year – the first since 1994. It suggested refined lead consumption would rise by 2.65 per cent from the 1996 level, to 5.86m tonnes.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1329-30	1361-62
Previous	1321.5-22.5	1354-54.5
High/low	1323	1365/1349
AM Official	1322-23	1354-55
Kerb close		1367-68
Open int.	215,345	
Total daily turnover	49,408	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1220-25	1242-45
Previous	1198-203	1225-28
High/low		1242/1225
AM Official	1210-15	1235-40
Kerb close		1240-45
Open int.	5,428	
Total daily turnover	592	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	717-18	728-29
Previous	707-8	718-9
High/low	711.5	734/721
AM Official	711.5-12.0	723-24
Kerb close		730-32
Open int.	40,850	
Total daily turnover	11,047	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7030-40	7145-50
Previous	6950-60	7060-70
High/low	6950	7175/7055
AM Official	6940-50	7060-65
Kerb close		7160-65
Open int.	43,975	
Total daily turnover	11,716	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5930-40	5990-95
Previous	5905-15	5965-70
High/low		5990/5970
AM Official	5905-10	5960-61
Kerb close		5970-75
Open int.	15,880	
Total daily turnover	3,485	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1000-1001	1026-27
Previous	994-5	1020-20.5
High/low	997	1028/1021
AM Official	997-97.5	1023.5-24.5
Kerb close		1025-25.5
Open int.	71,858	
Total daily turnover	15,782	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1994.5-96.5	1961-62
Previous	1986-87	1951-53
High/low	1982	1964/1946
AM Official	1982-83	1948-49
Kerb close		1960-61
Open int.	171,591	
Total daily turnover	66,005	

■ LME AM Official £/$ rate: 1.5958
LME Closing £/$ rate: 1.5969

Spot: 1.5957 3 mths: 1.5938 6 mths: 1.5920 9 mths: 1.5898

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	95.70	-0.05	96.00	94.90	400	2,901
Nov	93.25	-0.90	93.50	92.90	314	2,529
Dec	92.45	-0.55	93.00	88.30	6,159	22,832
Jan	91.75	-0.45	92.00	92.00	52	1,391
Feb	91.05	-0.35	90.70	90.50	119	944
Mar	89.95	-0.55	90.30	89.50	1,897	10,426
Total					9,126	67,339

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	383.40-383.80		
Opening	382.50-382.90		
Morning fix	382.40	239.975	482.589
Afternoon fix	383.35	239.909	-
Day's High	383.60-384.00		
Day's Low	382.00-382.40		
Previous close	381.60-382.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.66 6 months 3.55
2 months ....3.61 12 months 3.60
3 months 3.55

Silver Fix	p/troy oz.	US cts equiv.
Spot	310.50	495.25
3 months	314.85	501.60
6 months	319.05	507.75
1 year	328.05	520.60

Gold Coins	$ price	£ equiv.
Krugerrand	381-384	238-240
Maple Leaf	388.15-390.60	

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	384.2	+2.3	-	-	2	14
Dec	386.1	+2.3	386.5	383.7	29,090	107k
Feb	388.3	+2.2	388.9	386.8	1,139	16,820
Apr	390.5	+2.2	390.6	388.7	99	10,615
Jun	392.9	+2.2	393.0	391.7	35	11,007
Aug	395.3	+2.2	-	-	10	4,349
Total					30,604	194,023

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	389.2	+2.7	-	-	3	14
Jan	390.9	+2.7	391.3	388.8	1,631	19,362
Apr	393.5	+2.7	394.0	392.5	381	7,620
Jul	396.5	+2.7	-	394.0	33	916
Oct	400.0	+2.7	-	-	-	27
Total					2,012	27,929

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	120.75	+2.35	121.50	118.60	402	7,616
Mar	121.75	+2.35	121.00	120.25	20	207
Jun	122.80	+2.35			-	114
Total					403	7,937

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	496.2	+5.4	-	-	13	1
Dec	499.0	+5.3	500.0	493.5	9,258	63,722
Jan	501.0	+5.3	-	498.0	5	28
Mar	506.0	+5.4	507.0	502.5	262	12,699
May	510.5	+5.4	513.0	509.0	36	6,537
Jul	515.2	+5.4	-	-	43	5,034
Total					9,530	95,043

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	25.79	-0.13	25.91	25.38	28,551	22,738
Dec	25.38	-0.08	25.49	25.00	35,524	98,777
Jan	24.87	-0.08	24.94	24.53	8,013	53,154
Feb	24.19	-0.14	24.29	24.02	3,924	36,884
Mar	23.63	-0.08	23.68	23.40	956	21,009
Apr	23.02	-0.14	23.02	22.85	443	14,642
Total					79,921	413,774

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	24.36	-0.28	24.50	24.17	13,478	74,027
Jan	23.82	-0.03	23.82	23.56	4,589	35,465
Feb	23.01	-0.10	23.10	22.92	2,442	22,623
Mar	22.36	+0.01	22.38	22.23	1,935	26,718
Apr	21.72	+0.08	21.72	21.61	1,447	8,113
May	21.15	+0.09	21.15	21.15	22	3,863
Total					28,108	187,235

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	73.10	-0.53	73.50	71.60	12,728	32,261
Dec	72.95	-0.30	73.25	71.30	8,635	38,686
Jan	72.25	-0.20	72.40	70.70	2,326	26,657
Feb	70.50	+0.05	70.60	69.20	1,116	13,334
Mar	67.05	-0.10	67.05	66.35	190	9,011
Apr	63.35	+0.10	63.35	62.40	774	5,017
Total					26,174	141,162

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	230.75	-3.50	232.75	227.50	9,085	30,060
Dec	225.75	-2.00	226.25	222.50	5,262	20,973
Jan	218.50	-1.75	219.75	217.25	1,247	18,304
Feb	211.00	-1.75	211.75	209.75	743	8,259
Mar	202.25	-1275	203.00	200.50	474	5,146
Apr	193.50	-1.25	193.75	193.00	99	4,307
Total					17,129	96,176

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.574	+0.092	2.580	2.490	17,029	27,973
Dec	2.680	+0.072	2.700	2.625	5,671	32,349
Jan	2.700	+0.065	2.715	2.660	1,995	20,151
Feb	2.575	+0.060	2.580	2.535	1,160	12,306
Mar	2.420	+0.101	2.430	2.360	709	8,363
Apr	2.205	+0.091	2.210	2.175	253	5,223
Total					29,625	152,236

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	68.50	+0.58	68.50	66.65	9,823	20,561
Dec	67.50	+0.30	67.50	66.00	3,444	19,531
Jan	66.10	-0.10	66.30	65.20	703	10,408
Feb	65.60	-0.05	65.60	65.00	256	3,788
Mar	65.40	-0.45	65.60	65.20	98	2,128
Apr	67.65	-	67.70	67.65	181	2,571
Total					14,500	61,267

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	96.50	-0.90	97.90	96.75	224	690
Jan	98.35	-1.00	99.85	98.35	226	2,266
Mar	99.50	-1.00	101.00	99.40	280	1,748
May	101.00	-1.00	102.50	101.00	203	1,301
Jul	102.50	-1.00	104.00	102.50	-	167
Nov	97.00	-	97.00	97.00	7	134
Total					951	6,306

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	399.50	-1.00	401.50	392.00	10,203	37,232
Mar	391.50	-1.25	394.00	387.50	3,834	15,424
May	372.50	-1.50	376.00	369.00	287	1,809
Jul	357.50	-1.50	360.00	353.00	1,139	9,546
Sep	360.00	-2.00	360.00	357.00	25	249
Dec	366.00	-3.00	366.00	366.00	3	164
Total					15,498	64,478

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	279.50	+0.50	280.00	276.25	35,556	148,763
Mar	285.00	-	285.75	282.25	8,681	83,117
May	290.50	-	291.50	287.75	2,883	37,780
Jul	292.25	-	292.75	289.50	2,132	30,128
Sep	282.50	+0.25	283.00	280.25	172	3,196
Dec	278.75	+0.50	279.25	276.50	1,489	22,138
Total					51,048	326,055

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	93.50	-0.75	93.50	93.50	15	560
Jan	95.00	-1.00	95.50	95.50	1	841
Mar	96.50	-1.00	97.50	97.00	10	193
May	98.00	-1.00	98.00	98.00	20	100
Sep	93.00	-	-	-	-	1
Total					31	1,720

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	689.00	+8.50	690.00	677.75	36,727	68,814
Jan	690.00	+5.50	691.00	679.00	16,605	43,693
Mar	694.00	+3.75	695.00	683.00	6,615	28,916
May	694.50	+1.25	695.00	685.50	3,160	15,604
Jul	696.25	+1.00	698.50	686.50	2,110	13,772
Aug	693.50	+1.00	693.50	686.00	225	1,274
Total					66,461	179,883

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	22.75	-0.16	23.00	22.72	376	526
Dec	23.31	+0.10	23.31	22.88	8,634	49,420
Jan	23.58	+0.11	23.57	23.15	2,445	16,699
Mar	23.90	+0.13	23.88	23.48	1,904	16,731
May	24.19	+0.16	24.18	23.75	881	9,243
Jul	24.47	+0.17	24.50	24.05	497	3,758
Total					14,921	99,596

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	231.0	+1.3	235.5	228.5	1,250	605
Dec	225.2	+3.4	225.5	221.2	13,284	45,020
Jan	220.9	+2.4	221.1	217.3	4,018	10,133
Mar	217.6	+1.2	217.7	214.1	4,758	16,461
May	214.9	+0.6	215.3	211.9	1,797	9,269
Jul	215.0	+1.3	214.8	211.9	1,027	4,725
Total					26,173	88,663

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	32.5	-	-	-	-	2
Mar	68.7	-	-	-	-	-
Apr	70.0	-	70.0	70.0	74	1,343
May	79.0	-	-	-	-	17
Jun	89.0	-	-	-	-	-
Total					9	1,362

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1237	-5	1240	1230	92	827
Nov	1325	-25	1330	1320	74	635
Dec	1310	-20	1315	1310	16	277
Jan	1309	-21	1330	1300	159	1,821
Apr	1320	-23	1330	1320	42	647
Jul	1120	-25	1140	1140	3	187
Total					386	1,198

	Close	Prev
BFI	1199	n/a

FUTURES DATA
All futures data supplied by CMS.

Minor Metals
European free market, from Metal Bulletin. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony:** 99.65%, $ per tonne, 2,050-2,150 (2,150-2,200). **Bismuth:** min. 99.99%, tonne lots 3.20-3.55 (3.30-3.70). **Cadmium:** min. 99.95%, cents a pound, 70-75 (80-85). **Cobalt:** MB free market, min. 99.8%, 21.20-22.20 (22.00-22.80); min. 99.3%, 20.00-21.20 (20.50-21.60). **Mercury:** min. 99.99%, $ per 76 lb flask, 162-172. **Molybdenum:** drummed molybdic oxide, 4.20-4.50 (4.90-5.30). **Selenium:** min 99.5%, 2.90-4.00 (3.00-4.00). **Tungsten ore:** standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 40-53. **Vanadium:** min. 98%, cif, 3.10-3.25 (3.05-3.20). **Uranium:** Nuexco unrestricted exchange value, 15.25.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	957	-3	960	950	1,202	28,700
Mar	985	-1	987	977	976	41,645
May	1000	-	1000	992	750	17,657
Jul	1014	+1	1013	1010	48	11,757
Sep	1029	+2	1029	1019	361	4,184
Dec	1040	+1	1039	1030	87	4,184
Total					3,648	131,869

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1384	+1	1396	1379	3,739	27,012
Mar	1411	-1	1421	1408	1,180	22,958
May	1426	-1	1438	1423	246	8,928
Jul	1440	-	1445	1435	41	6,481
Sep	1457	+1	1462	1457	50	5,718
Dec	1476	+1	-	-	114	797
Total					5,259	80,828

■ COCOA (ICCO) (SDR's/tonne)

Oct 21	Price	Prev. day
Daily	1034.52	1033.49

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1547	+47	1560	1520	3,180	8,065
Jan	1427	+40	1433	1407	4,311	14,611
Mar	1380	+25	1395	1361	1,337	6,956
May	1354	+22	1371	1339	234	2,807
Jul	1347	+15	1350	1340	140	345
Sep	1347	+15	1344	1344	1	77
Total					9,202	32,879

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	117.60	+4.60	118.75	115.10	5,903	13,098
Mar	106.60	+2.55	107.20	104.75	2,150	8,355
May	105.10	+1.85	105.85	103.00	341	2,820
Jul	104.25	+1.35	105.10	103.25	42	802
Sep	104.25	+1.35	104.00	103.75	18	537
Dec	104.25	+1.50	103.50	103.50	15	326
Total					8,472	26,006

■ COFFEE (ICO) (US cents/pound)

Oct 21		Prev. day
Comp. daily	97.99	96.68
15 day average	97.94	97.64

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	316.9	-0.5	317.7	315.9	652	8,636
Mar	313.6	-0.5	314.5	312.4	635	12,632
May	314.2	-	314.8	312.8	361	4,360
Aug	316.4	-	316.6	316.5	55	1,784
Oct	309.9	+0.1	309.5	309.5	31	1,000
Dec	312.9	+0.2	314.0	314.0	-	283
Total					1,693	29,012

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.63	+0.06	10.65	10.53	7,137	85,068
May	10.65	+0.04	10.65	10.59	1,808	28,941
Jul	10.58	+0.05	10.61	10.51	590	18,584
Oct	10.58	+0.05	10.58	10.51	724	10,798
Mar	10.55	+0.03	10.55	10.49	350	3,233
May	10.51	+0.04	10.45	10.45	55	854
Total					10,894	147,728

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	72.88	+0.96	73.50	72.40	9,862	26,495
Mar	74.33	+1.05	74.75	73.85	1,968	12,330
May	75.30	+1.05	75.60	74.80	632	7,794
Jul	76.10	+1.22	76.35	75.60	1,104	6,170
Oct	76.20	+0.50	76.20	76.00	61	1,236
Dec	76.05	+0.37	76.20	75.85	311	4,421
Total					13,899	58,904

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	110.00	-1.50	111.60	110.00	265	6,000
Jan	101.10	-1.60	102.70	101.05	998	6,590
Mar	103.70	-0.95	104.25	103.25	354	3,253
May	105.55	-1.15	106.90	105.50	75	680
Jul	107.45	-1.30	109.15	109.15	2	522
Sep	108.95	-1.30	-	-	-	239
Total					1,693	17,378

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Oct 22	Oct 21	month ago	year ago
1860.0	1857.5	1895.0	2160.4

■ CRB Futures (Base: 1967 = 100)

Oct 21	Oct 18	month ago	year ago
243.83	243.35		

■ GSCI Spot (Base: 1970 = 100)

Oct 21	Oct 18	month ago	year ago
N/A	210.86	N/A	N/A

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	72.275	+0.600	72.300	71.700	1,414	8,429
Dec	65.100	+0.200	65.250	64.800	8,232	39,299
Feb	62.675	-0.175	62.950	62.550	2,319	18,783
Apr	64.800	-0.175	65.000	64.725	1,214	17,362
Jun	63.000	-0.100	63.150	63.000	390	5,105
Aug	62.800	+0.050	62.900	62.750	320	5,692
Total					14,048	89,595

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	53.625	-1.500	54.975	53.625	673	1,105
Dec	52.100	-1.500	53.500	52.100	3,788	15,012
Feb	72.325	-2.000	73.850	72.325	1,422	8,023
Apr	68.475	-1.800	70.000	68.275	298	2,962
Jun	73.175	-1.925	74.750	73.100	141	3,336
Jul	70.925	-1.675	72.500	70.600	60	846
Total					6,433	32,301

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	66.875	-1.625	68.000	65.300	1,671	5,274
Mar	66.675	-1.125	67.550	64.800	103	586
May	68.200	-2.050	69.100	67.250	42	354
Jul	68.500	-2.050	68.500	67.550	13	141
Aug	66.900	-1.550	65.450	65.450	2	33
Total					1,823	6,388

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1325	52	102	8	26
1350	22	72	27	45
1375	7	48	61	70
■ COPPER (Grade A) LME	**Nov**	**Feb**	**Nov**	**Feb**
1900	103	127	11	84
1950	67	102	24	108
2000	39	81	46	138
■ COFFEE LIFFE	**Nov**	**Jan**	**Nov**	**Jan**
1500	19	33	3	106
1550	1	21	35	144
1600	-	13	84	186
■ COCOA LIFFE	**Dec**	**Mar**	**Dec**	**Mar**
950	28	63	21	28
975	17	49	35	39
1000	10	38	53	53
■ BRENT CRUDE IPE	**Dec**	**Jan**	**Dec**	**Jan**
2400	-	-	-	-
2450	61	88	-	-
2500	44	73	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$22.37-2.40x	+0.240
Brent Blend (dated)	$25.18-5.22	+0.080
Brent Blend (Dec)	$24.75-4.78	+0.205
W.T.I.	$25.68-5.72x	+0.315

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$241-243	
Gas Oil	$233-235	-2
Heavy Fuel Oil	$123-125	-1
Naphtha	$230-231	-1.5
Jet fuel	$260-262	-2.5
Diesel	$261-263	-2

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	13.40-3.50	+0.05

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

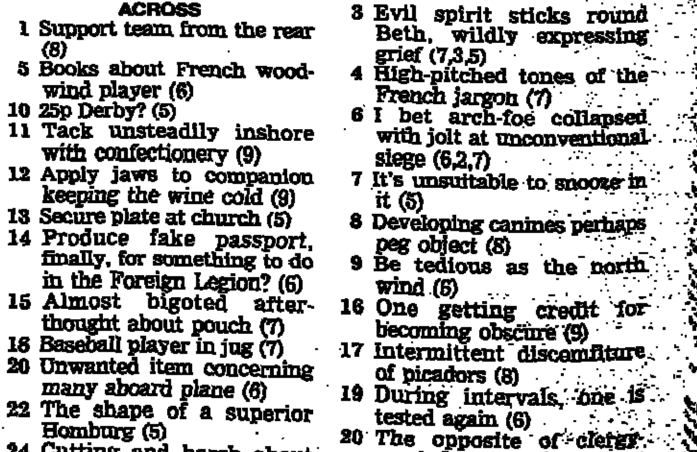
Gold (per troy oz)♣	$383.60	+1.80
Silver (per troy oz)♣	496.50c	+6.75
Platinum (per troy oz.)	$385.25	+1.75
Palladium (per troy oz.)	$117.75	+1.50
Copper	96.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.68r	
Tin (New York)	276.50	-1.00
Cattle (live weight)	97.60p	+2.12*
Sheep (live weight)	118.12p	+2.80*
Pigs (live weight)†	98.33p	-2.00*
Lon. day sugar (raw)	$264.70	-0.40
Lon. day sugar (wte)	$325.50	
Barley (Eng. feed)	103.50	
Maize (US No3 Yellow)	126.50	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	81.50p	-1.25
Rubber (Dec)♥	81.50p	-1.25
Rubber (KL RSS No1)	310.5z	-1.0
Coconut Oil (Phil)§	$725.0v	-5.0
Palm Oil (Malay.)§	517.5z	-2.5
Copra (Phil)§	$459.0v	
Soyabeans (US)	200.0	-1.0
Cotton Outlook'A' index	74.75	+0.40
Wooltops (64s Super)	410p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Dec v Oct/Nov z Nov ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,569 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,206 Set by DOGBERRY



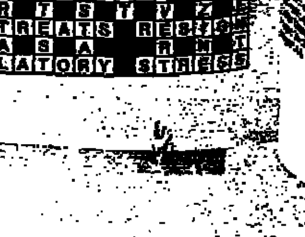
ACROSS

1 Support team from the rear (8)
5 Books about French woodwind player (6)
10 25p Derby? (5)
11 Tack unsteadily inshore with confectionery (9)
12 Apply jaws to companion keeping the wine cold (9)
13 Secure plate at church (5)
14 Produce fake passport, finally, for something to do in the Foreign Legion? (6)
15 Almost bigoted afterthought about pouch (7)
18 Baseball player in jug (7)
20 Unwanted item concerning many aboard plane (6)
22 The shape of a superior Homburg (5)
24 Cutting and harsh about Nelson's followers (9)
25 Cloth muffling a medic and a bomber (9)
26 Said to ascend to meteorological zone (5)
27 Worries about second kiss (6)
28 One point in the Department of Latin Verbs, perhaps (8)

DOWN

1 Get insect to eat officer and men, initially (6)
2 Line of science fiction interrupting bird's line (5-4)
3 Evil spirit sticks round Beth, wildly expressing grief (7,3,5)
4 High-pitched tones of the French jargon (7)
6 I bet arch-foe collapsed with jolt at unconventional siege (6,2,7)
7 It's unsuitable to snooze in it (5)
8 Developing canines perhaps peg object (8)
9 Be tedious as the north wind (6)
16 One getting credit for becoming obscure (9)
17 Intermittent discomfiture of picadors (8)
19 During intervals, one is tested again (6)
20 The opposite of clergyman's language (7)
21 What's due to waste? (6)
23 Shell unopened window (5)

Solution 9,205



FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK: Prof Advisers 0800 414181 — Jersey: 01534 71696
Private Clients 0800 414181 — 09 782 290404230
From Outside (44) 1732 777377 — Hong Kong (852) 848 1000

	Selling Price	+ or -	Yield Gr's
A$ Accum	A$19.736	+0.002	5.80
ASch Accum	Sch248.92	+0.01	2.00
C$ Accum	C$18.702	+0.002	2.80
DM Accum	DM38.322	+0.002	1.80
DFl Accum	Dfl31.881	+0.001	1.70
ECU Accum	Ecu13.495	+0.002	3.00
FFr Accum	FFr87.036	+0.004	2.40
HK$ Accum	HK$121.26	+0.01	4.20
Lire Accum	L29817	+5	7.50
NZ$ Accum	NZ$38.913	+0.008	9.00
NKr Accum	NKr112.82	+0.01	3.40
S$ Accum	S$28.033	+0.002	2.60
SPta Accum	Pta2738.3	+0.5	5.80
£ Accum	£13.130	+0.001	4.70
SKr Accum	SKr121.12	+0.01	3.70
SFr Accum	SF29.380	+0.001	0.50
US$ Accum	$23.621	+0.003	4.40
Yen Accum	Y2880.4	—	0.10

Prices for dealing Oct 22

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1258, Hamilton, Bermuda 001 809 292 2760

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Fidelity Funds - Contd.

Mercury Asset Management S.A. - Contd.

Aetna International Umbrella Fund - Contd.

Credis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Storebrand Scudder Environmental Value Fd

Svenska Securities

Swiss Bank Corporation

CMI Ins Co Ltd/Clerical Med Gen Life - Contd.

LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund (u)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International - Contd.				
$ Nth Am Stkmkt	$3.653	3.863	—	–
$ Japan Stockmkt	$1.666	1.761	—	–
$ Pacific Stockmkt	$5.390	5.731	—	–
$ Emerging Asian Stockmkt	$2.229	2.369	—	–
$ Hong Kong Stockmkt	$7.392	7.949	—	–
$ Intl Fixed Interest	$3.810	4.097	—	–
$ Intl Mngd Currency	$2.430	2.623	—	–
$ Dollar Money Mkt	$2.285	2.435	—	–
$ Latin American Stkmkt	$0.959	1.022	—	–
$ Dollar Special Mkt	$1.099	1.171	—	–
$ Emerging Market Bond	$1.177	1.255	—	–
$ Emerging Stockmarkets	$0.788	0.839	—	–
G'teed Futures1 Sep '98		$1.659	—	–
G'teed Futures2 Mar '99		$1.463	—	–
G'teed Futures3 Sep '99		$1.705	—	–
G'teed Futures4 Dec 2000		$1.579	—	–
G'teed Futures5 Dec 2001		$0.783	—	–
Guaranteed 100 Futures Bond		$1.128	—	–
Swiss Franc Managed	SFr6.909	7.322	—	–
Swiss Franc Money Mkt	SFr1.298	1.383	—	–
Commodities	SFr1.018	1.028	—	–
DEM Deutschemark Mgd	DM2.850	2.949	—	–
$ Secure Stkmkt Index	$0.941	1.013	—	–
£ Secure Stkmkt Index	0.991	1.043	—	–
Regular Managed Funds				
£ GFS Global Port	£1.386	1.503	—	–
£ YRA Worldwide	£1.390	1.485	—	–
$ YRA DM Worldwide	$1.515	1.629	—	–
Young & Co Global P'folio	$1.272	1.357	—	–
Pioneer Mid Term Agg	$1.149	1.229	—	–
Pioneer Long Term Cons	$1.110	1.194	—	–
Pioneer Long Term Agg	$0.878	0.942	—	–
HFP Selective Mgd	$1.123	1.206	—	–
Jaguar International Managed	$0.849	0.913	—	–
Miyako Intl Ltd Global Gain	DM0.934	1.004	—	–
PanEuroLife societe anonyme				
36 Av Marie-Therese, Luxembourg		00 352 456730		
French Balanced Oct 16	FFr6947.03	+81.87		–
German/Benelux Oct 16	DM3149.06	+17.44		–
Global Equities Oct 16	$1380.20	+7.90		–
UK Secure Gth Oct 16	£737.01	+2.24		–
US Secure Growth Oct 16	$1189.43	+8.83		–
Intl Real Estate Oct 16	Ecu1493.30	+32.82		–
Fund of Funds Oct 16	Ecu1340.94	+12.45		–

	Selling Price	Buying Price	+ or -	Yield Gross
Alnista Capital Management Ltd				
Alnista Growth Fund and Unit Trust				
Class A	$97.05	100.05	—	–
Class B	$97.05	100.05	—	–
Alpha Fund Management Ltd				
Alpha Europe Sep 30		Ecu284.05	—	–
Alpha Futures Sep 30		$238.21	—	–
Alpha Global Sep 30		$860.19	—	–
Alpha Asian Oct 16		$148.29	—	–
Alpha Asian Taco Class Aug 31		$113.75	—	–
Alpha Hedge Class A Aug 31		$535.58	—	–
Alpha Hedge Class B Aug 31		$194.24	—	–
Alpha Hedge Class C Aug 31		$138.70	—	–
Alpha Latin Am Aug 31		$387.48	—	–
Alpha Pacific Sep 30		$337.85	—	–
Alpha Short Aug 31		$80.08	—	–
Alpha Thikale Sep 30		$220.98	—	–
A Worthington Sep 30		$198.69	—	–
		$96.37	—	–
		$119.36	—	–
		$103.54	—	–
		Ecu184.41	—	–
		$117.87	—	–
			—	–
		$78.29	—	–
		$178.59	—	–
		$153.18	—	–
		$111.98	—	–
		$127.40	—	–
		$92.40	—	–
		$84.70	—	–
The Pacific Fund Ltd Sep 30		$137.43	—	–
Sage International Aug 31		$119.48	—	–
		$123.62	—	–
		$117.85	—	–
India Performance Sep 30		$96.25	—	–
High Yield Currency Class		$147.71	—	–
Aravis Capital Advisers LLC				
Aravis Clipper Ltd		$112.46	—	–
Arc Investment Company Ltd				
Rainbow		$614.40	—	–
Rainbow		SFr618.82	—	–

For Aashwi Ltd see Stephen ... Partners

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	489	–4½	558	419	4,886	6.3	17.8
Bulmer (HP)	[illegible]	615	–	625	477	271.9	3.2	17.3
Burn St Dist	[illegible]	70	–	146	68½	41.5	6.7	ф
Glenmorangie A		755	–	775	600	87.9	2.0	19.3
Grand Met	[illegible]	486	–3	498	411	10,201	3.3	20.6
Guinness	[illegible]	460xd	–5	512	435	8,878	4.1	14.3
Highland	[illegible]	331	–	378	315	441.2	3.2	15.6
5½pc Cnv Bds		100	–	101½	96½	–	–	–
[illegible]		881¼	–13½	879½	627½	6,858	0.8	28.4
Matthew Clark	[illegible]	294	+1	303	277½	260.2	10.2	14.0
Merrydown	[illegible]	118½	–	141	93	12.0	5.1	10.1
Seagram $		£22⅞	–⅛	£25⅞	£20⅛	6,054	1.3	–

BANKS, MERCHANT

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible] Sec Cm 2nd Pf		50½xd	–	50½	50½	8.31	19.8	–
Cater Allen	[illegible]	407	–	482	379	132.7	9.2	12.1
Close Bros	[illegible]	338xd	–4	392	307½	388.3	3.8	13.3
Gerrard & Nat	[illegible]	271	–1	472	271	132.5	10.9	10.7
Hambros		253½	–	267½	183	448.9	3.7	–
7½pc Cv Pf		119	–	119	94½	145.8	8.3	–
King & Shaxson	[illegible]	178½	–2½	197	113½	45.9	6.4	15.5
Leopold J	[illegible]	455	–	493	405	24.1	5.4	16.5
Rea Brothers	[illegible]	61½	–	67	44	29.8	2.0	34.2
Schroders	[illegible]	1410xd	–15	1485	1185	2,129	1.6	18.0
N/V	[illegible]	1182½xd	–10	1205	890	520.3	1.8	13.4
Singer & Fried	[illegible]	127xd	–	134	99½	253.8	4.2	9.3
8½pc Cv Ln 03/14		£152¼xd	–1	£155	£124	46.6	5.6	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TELECOMMUNICATIONS - Cont.

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	g	£21½xd	----	£34¼	£21½	1,724	3.5	Φ
Barlow	&†	£5⅔	-1/16	£10⅞	£5⅝	1,204	2.1	-
Gold Flds Prop R		125¼	-6½	178	120	72.8	6.6	10.2
NK Props.		62	---	95	60	2.49	14.1	-
SASOL	♥	645	---	710	475	3,777	1.7	-
SA Brews		£18¾	-1/16	£25⅛	£16¼	4,831	2.0	Φ
Standard Bank		£25¼	-⅛	£32⅞	£22⅛	3,008	1.4	22.4
Tiger Oats	†	780	---	1278	770	1,188	2.0	16.9
Tongaat-Hulett		766¼xd	-3¼	1247	735	725.9	2.3	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield excludes a special payment
F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1995
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus, or other official estimates for 1995-96.
N Dividend is paid in whole or part as a
FD (Foreign Income Dividend)
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue,
xr ex rights;
xa ex all;
xC ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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UK stocks retreat amid Wall Street concerns

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Leading UK shares ran out of puff yesterday after their recent exertions, with small pockets of profit-taking dragging the FTSE 100 index down from its all-time high.

The weakness occurred despite plenty of good news, including an excellent outcome to the latest gilt auction, a relatively benign Confederation of British Industry Quarterly Trends Survey and a huge burst of activity in the telecoms/cable sector.

Dealers said the blue chips had been affected by Monday's late downturn on Wall Street, which re-awakened worries that the US market is becoming increasingly overvalued.

Footsie finished the day a net 15.9 off at 4,057.2 and was additionally burdened by a poor opening performance by Wall Street, where the Dow Jones Industrial Average showed a 20-point fall shortly after the opening.

But the selling pressure in the leaders, which was never more than light, did not extend to the market's second-liners. The FTSE 250 index delivered a robust performance, closing 3.3 up at 4,452.7, although well below the day's best level, 4,460.1. Unlike the senior index, the 250 is still way off its all-time closing high of 4,569.6, reached in April.

The strength of the FTSE 250 came in the wake of the creation of Cable & Wireless Communications, or as it has already been nicknamed in the market, "Supercable". Cable stocks occupied the top three places in the FTSE 250.

The deal, which merges Cable & Wireless's Mercury Communications with the UK cable interests of Bell Canada, Nynex and Videotron, was viewed as positive for all the parties involved.

Shares in Cable & Wireless were the best Footsie performers, but BT's were marginally weaker. Some telecoms specialists said BT could be weakened by a powerful attack on its market share by the newly created company. BSkyB, one of the market's best performers recently, also took a beating, with specialists pondering the growing threat posed to satellite television by the beefed-up cable group.

Such was the excitement generated in the market by the "Supercable" story that turnover in the telecom/cable stocks accounted for almost 18 per cent of total UK equity volume.

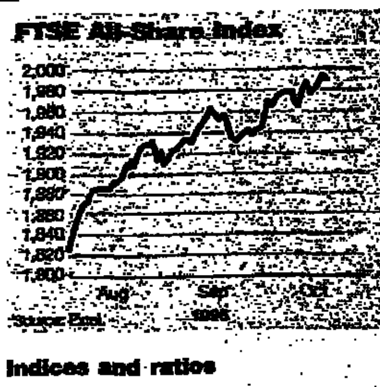
Traders were not too troubled by London's performance, although some remained convinced that a three-figure fall in the Dow was possible "at any time". One trader said dealers had to keep one eye on Wall Street, looking for the expected correction, and the other on the next UK bid target.

However, others took the view that with the gilt market in good shape the earnings and dividend outlook still sound and the potential for corporate activity still rosy, London had more to offer in short-term performance.

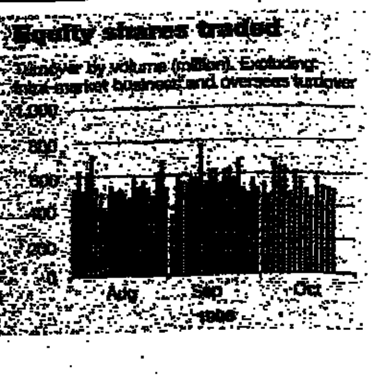
Gilts ended the day with gains of around 10 ticks after the £2bn auction had been well covered.

Turnover in equities at 6 pm was 703m shares. Customer business on Monday was a rather meagre £1.22bn.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	4057.2	-15.9	FT 30	2856.8	-13.3
FTSE 250	4452.7	+3.3	FTSE Non-Fins p/e	18.34	18.38
FTSE 350	2016.2	-5.9	FTSE 100 Fut Dec	4090.0	-11.0
FTSE All-Share	1989.00	-5.54	10 yr Gilt yield	7.59	7.59
FTSE All-Share yield	3.73	3.72	Long gilt/equity yld ratio	2.14	2.14

Best performing sectors

1 Telecommunications ... +1.6
2 Household Goods ... +1.4
3 Utilities ... +0.8
4 Property ... +0.6
5 Tobacco ... +0.5

Worst performing sectors

1 Alcoholic Beverages ... -1.3
2 Paper, Pckg & Printing ... -1.0
3 Extractive Industries ... -0.9
4 Building Matls & Merchs ... -0.9
5 Insurance ... -0.9

C & W cable fever

By Joel Kibazo and Lisa Wood

International telecommunications group Cable & Wireless stole the limelight after confirming it had reached agreement to merge its UK operations with Nynex CableComms Group and Bell Cablemedia.

The deal merges C&W's Mercury Communications, Nynex CableComms Group, Bell Cablemedia and Videotron Holdings into one integrated telecoms, information and entertainment services group.

News of the agreement made shares in Cable and Wireless the day's best Footsie performers as they rose by nearly 6 per cent. They closed 26 ahead at 467p, having traded a hefty 29m, the most actively traded stock of the day and C&W's highest daily total since May.

Ms Tressan MacCarthy at Panmure Gordon said: "This deal puts a value on the business that everyone will be able to see from March 1997 when the new company is listed." She added: "It also makes Mercury a stronger company strategically, with direct access to 6m UK homes through the cable networks."

The deal sent a buzz through the whole telecoms sector. Following the lead set by C&W, Nynex CableComms was the best performer among FTSE 250 index constituents. The units rose by nearly 35 per cent as they jumped 23½ to 119½p, although one analyst said: "The share price rise more than reflects the benefits for Nynex from this agreement." It was the most heavily traded stock in the market yesterday, with volume of 50m.

In the rest of the sector, General Cable, regarded by several sector specialists as a bid target, was also in demand and the shares put on 19 to 197p in trade of 6.5m.

Telewest is regarded as a predator, and it too was wanted, the shares closing 12 ahead at 125p. Turnover was 14m.

The prospect of strong competition from the new group cast a shadow over several leading stocks in the market. BT eased 4 to 354p, having traded 21m. Satellite broadcaster BSkyB is also expected to face strong competition from the newly merged cable group. The shares tumbled 18 to 678½p.

International banking group Standard Chartered was the worst Footsie performer after a sharp downgrade and a change of recommendation by at least one top broker exacted a heavy toll on the stock.

The shares fell 27½ to 654½p after trade of 5m. Analysts at James Capel were said to have reduced current year earnings expectations for the group to £818m from £848m. The broker is also said to have downgraded 1997 expectations by £45m to £930m.

Sentiment was hit further by reports that chartists at Robert Fleming now regard the stock as a "sell". Shares in Standard Chartered came under pressure last week when Cazenove, the group's broker, was said to have become increasingly cautious about profit expectations.

However, BZW, which is predicting profits this year of £862m, remains a fan and believes, "the underlying business is still doing well and the current slide in the share price is a good buying opportunity".

Reckitt & Colman climbed 13 to 726p after the group said it was to pay a Foreign Income Dividend of 35.65 pence and, through a consolidation, reduce the number of ordinary shares in issue by 5 per cent.

Analysts said the payout would avoid the tax problems suffered by Reuters as gross funds would not get a tax credit. Mr Steve Abbot of Crédit Lyonnais Laing was reported as saying that the group's assertion that the exceptional dividend would enhance earnings per share was slightly misleading as it would in fact merely enhance the value of the company.

Allied Domecq softened 4½ to 469p and Bass fell 11 to 787p, following unconfirmed media reports that the Office of Fair Trading was to recommend that the government refers the Carlsberg-Tetley deal to the Monopolies and Mergers Commission.

One analyst said he was surprised that the market did not think the sale would be referred. He said that Bass and Carlsberg had a contingency plan should the bid be blocked - 15 per cent would be taken back by Allied and 85 per cent by Carlsberg. Bass stands to lose about £60m if the deal does not go through.

Pearson, which owns the Financial Times, climbed 12½ more to a record 742½p on continuing hopes of a bid during what some analysts called a "window of opportunity" before Ms Marjorie Scardino takes over as chief executive in the New Year.

Earlier in the week, newspaper reports suggested that a bid could come from BSkyB, which is 40 per cent owned by Mr Rupert Murdoch. A denial by BSkyB of such an intention failed to dampen market speculation.

One analyst, who did not want to be named, said there had been a bit of a squeeze on the stock. "The market is nervous of missing out on potential corporate activity," he said. Anticipation of potential upgrades, he said, was a less important issue at the moment than the possibility of a bid.

But, he doubted the chances of a bid, for a number of reasons, and pointed out that a reorganisation of the media conglomerate could lead to earnings dilution in the short term.

A profits warning from packaging group Low & Bonar sent the shares reeling. They closed 73½ off at 483½, the worst performer in the FTSE 250. Volume was 1.2m.

Wolseley, the builders merchant, fell 14 to 493p despite results at the top end of expectations. One analyst said that at a recent meeting, Wolseley lived up to its reputation for caution, expressing nervousness about prospects in the US should interest rates rise. The US accounts for about half Wolseley's profits.

SGST was said to have advised advised clients to "take profits", while NatWest Securities was said to have recommended "sell".

Unilever slipped 10½ to 1334p following reports of an interview with Mr Morris Tabaksblat, chairman of the group, in which he suggested that the proposed shakeout of the group would be less far-reaching than suggested by Mr Niall FitzGerald, his co-chairman.

Cadbury Schweppes, which is hosting an analysts visit to the US, hardened 2¼ to 520p. John David Sports, which sells fashion sportswear, made an energetic market debut, closing at 306½p, a 21½p premium to the 285p placing price.

FT 30 INDEX

	Oct 22	Oct 21	Oct 18	Oct 17	Oct 16	Yr ago	*High	*Low
FT 30	2856.8	2870.1	2865.2	2864.4	2855.6	2582.7	2885.2	2668.8
Ord. div. yield	3.97	3.95	3.96	3.97	3.99	4.10	4.22	3.78
P/E ratio net	17.37	17.46	17.41	17.38	17.30	15.67	17.49	15.80
P/E ratio nil	17.21	17.30	17.24	17.22	17.14	15.48	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2862.5	2863.2	2863.3	2856.0	2856.9	2855.1	2855.1	2858.4	2857.0	2864.4	2854.4

	Oct 22	Oct 21	Oct 18	Oct 17	Oct 16	Yr ago
SEAQ bargains	38,234	41,615	39,107	37,499	38,856	28,588
Equity turnover (£m)†	-	1316.9	1629.5	1582.7	1598.4	1397.4
Equity bargains†	-	34,033	33,537	32,996	34,299	31,670
Shares traded (ml)†	-	453.6	515.5	523	526.1	552.6

†Excluding intra-market business and overseas turnover.

	Oct 22	Oct 21	Oct 18	Oct 17	Oct 16	Yr ago	*High	*Low
FTSE AIM	1008.50	1011.70	1010.10	1006.60	1005.60	-	1140.40	965.70

 *For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	363	Total Highs	102	Total contracts	35,915
Total Falls	823	Total Lows	110	Calls	13,273
Same	1,433			Puts	22,642

Oct 22 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4092.0	4090.0	-11.0	4095.0	4078.0	9392	62937
Mar	4104.0	4105.0	-9.0	4104.0	4099.0	25	483
Jun		4119.0	-11.0			0	326

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4471.0	+4.0			0	3571

■ FTSE 100 INDEX OPTION (LIFFE) (*4058) £10 per full index point

	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P	4150 C	4150 P	4200 C	4200 P	4250 C	4250 P
Nov	183	6½	137½	10½	95	18	57½	32½	30	57	12½	83	3½	141½	1	191½
Dec	212½	21½	170½	29½	139	40½	95½	58	66	80½	42½	109	25	146	12½	191½
Jan	228	33½	189½	44	151½	57½	119½	75	90	96	65½	123½	45½	156½	29	191½
Feb	247½	45	208½	57	174	71½	142	90	114½	112½	88½	139	68½	169	59	205
Jun†	382	96½			239	130½			183½	175			135	226½		

Calls 2,684 Puts 9,252

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P	4175 C	4175 P	4225 C	4225 P	4275 C	4275 P
Nov	157½	7½	113½	13½	74½	24	42	41½	19½	68½	6½	105½	2	150½	1	199
Dec	186½	23½	147	33	119½	46½	79	64½	53	88	33½	117½	19	152½	18	192½
Jan	208	35	170	48	135	81	104	80	77½	103½	56½	132½	39	165	28	202
Mar	240½	65			172	94			115	134½			69½	186½		
Jun†	299	102½			224	133½			168½	174½			122	224		

Calls 4,001 Puts 3,018 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	34.2	85½	68	†Airtech	75		-	-	-	-
§135	F.P.	47.1	162½	152½	Charles Taylor	161½		L4.2	0.3	3.3	51.3
150	F.P.	29.5	169½	160½	Deltron Electm	160½		W2.75	2.9	2.1	15.2
§145	F.P.	37.1	246	148	†Elec Retail Sys	176½		-	-	-	-
§	F.P.	11.6	216	210	†Eurasia Mining	212½		-	-	-	-
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
170	F.P.	1,027	177	168	Thistle Hotels	170½	-3	R4.0	2.1	3.6	11.4
-	F.P.	6.70	139½	132½	Shalibar	[illegible]					
§250	F.P.	194.3	302	282½	Ultra Elctn	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
§	F.P.	109.9	62	52	†Victory	[illegible]					
§	F.P.	9.54	7¾	6¼	†Weeks	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Oct 21	% chg on day	Oct 18	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1881.94	+1.1	[illegible]	[illegible]	1.82	-	[illegible]	[illegible]
■ Regional indices								
Africa (13)	2421.15	-0.2	2426.32	2436.86	3.28	34.36	3553.88	2272.74
Australasia (6)	2209.38	-0.3	2216.31	2235.02	2.54	21.42	2927.34	2005.75
North America (12)	1686.34	+2.0	1653.38	1579.32	0.76	-62.96	2186.39	1488.94

 "FT Gold Mines Index" is a trademark of The Financial Times Limited. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 22	Day's chge%	Oct 21	Oct 18	Oct 17	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4057.2	-0.4	4073.1	4053.1	4042.1	3535.3	3.86	2.04	15.85	152.31	1688.27
FTSE 250	4452.7	+0.1	4449.4	4450.1	4444.1	3904.8	3.50	1.50	23.85	157.40	1814.99
FTSE 250 ex IT	4488.4	+0.1	4483.3	4482.9	4477.2	3924.7	3.60	1.52	22.83	165.66	1833.65
FTSE 350	2016.2	-0.3	2022.1	2014.3	2009.5	1759.4	3.78	1.94	17.07	74.79	1714.02
FTSE 350 Higher Yield	1901.1	-0.5	1911.0	1906.1	1902.8	1754.5	5.12	1.82	13.41	98.64	1362.34
FTSE 350 Lower Yield	2138.4	-0.1	2140.4	2129.8	2123.4	1768.9	2.61	2.13	22.45	53.49	1495.41
FTSE SmallCap	2191.09	-0.1	2193.32	2193.70	2192.06	1955.52	3.11	1.58	25.51	59.60	1821.16
FTSE SmallCap ex IT	2189.81	-0.1	2191.37	2190.94	2189.44	1942.97	3.31	1.65	22.93	63.16	1833.09
FTSE All-Share	1989.00	-0.3	1994.54	1987.45	1982.94	1738.30	3.73	1.91	17.51	72.31	1716.56

■ FTSE Actuaries Industry Sectors

	Oct 22	Day's chge%	Oct 21	Oct 18	Oct 17	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3974.39	-0.3	3985.34	3946.15	3938.66	2907.76	3.50	1.63	21.96	128.05	1735.15
12 Extractive Industries(6)	4210.02	-0.9	4248.49	4237.42	4226.49	4090.57	3.85	2.66	12.19	162.00	1254.79
15 Oil, Integrated(3)	4121.07	-0.1	4125.88	4077.15	4078.10	2896.68	3.63	1.45	23.80	135.18	1846.61
16 Oil Exploration & Prod(15)	2965.44	-0.8	2990.64	2981.66	2932.88	1904.51	1.79	1.71	40.94	52.04	1798.85
20 GEN INDUSTRIALS(276)	2078.71	-0.4	2087.71	2091.04	2091.80	1939.41	4.11	1.74	17.49	73.65	1156.57
21 Building & Construction(34)	1214.38	-0.1	1215.53	1218.02	1216.66	896.56	3.47	1.48	24.27	36.99	1034.28
22 Building Matls & Merchs(29)	1987.62	-0.9	2005.60	2008.54	2011.33	1656.83	3.88	1.53	21.08	62.89	1019.24
23 Chemicals(25)	2443.06	-0.3	2449.54	2454.55	2464.08	2427.42	4.15	1.52	19.78	86.14	1177.65
24 Diversified Industrials(19)	1490.28	-0.2	1494.01	1515.44	1524.13	1741.45	6.81	1.62	11.33	89.36	859.16
25 Electronic & Elect Equip(37)	2338.43	-0.6	2353.26	2352.47	2363.92	2126.03	3.37	1.46	25.39	63.97	1233.13
26 Engineering(71)	2675.36	-0.1	2678.41	2668.81	2657.43	2148.92	3.06	2.46	16.60	69.22	1547.06
27 Engineering, Vehicles(14)	3283.05	-0.7	3306.26	3286.46	3263.27	2520.38	3.29	1.72	22.14	98.84	1730.64
28 Paper, Pckg & Printing(26)	2608.70	-1.0	2635.50	2635.78	2625.42	2686.41	4.00	1.82	17.15	90.69	1106.79
29 Textiles & Apparel(19)	1193.03	-0.3	1197.05	1198.22	1197.30	1537.70	5.98	1.16	17.94	50.38	741.39
30 CONSUMER GOODS(82)	3805.93	-0.3	3817.21	3803.20	3799.85	3475.87	3.78	1.93	17.14	129.77	1432.25
32 Alcoholic Beverages(8)	2823.56	-1.3	2860.88	2838.47	2828.04	2916.79	4.50	1.63	17.08	104.05	1037.02
33 Food Producers(25)	2613.33	-0.3	2621.49	2624.85	2626.80	2506.25	4.02	1.84	16.85	85.25	1198.80
34 Household Goods(15)	2766.93	+1.4	2729.09	2741.73	2729.27	2632.97	3.69	2.25	15.05	95.47	1077.17
36 Health Care(18)	2031.99	-0.3	2037.90	2035.41	2047.99	1972.18	2.91	1.95	21.98	54.40	1263.01
37 Pharmaceuticals(14)	5960.10	-0.2	5972.99	5920.64	5897.58	4777.40	2.87	2.01	21.63	162.93	2056.12
38 Tobacco(2)	3609.39	+0.5	3591.53	3649.90	3701.57	4502.27	7.18	2.11	8.26	262.07	929.48
40 SERVICES(255)	2658.01	-0.4	2667.78	2656.01	2642.39	2154.00	2.79	1.97	22.76	73.18	1403.05
41 Distributors(30)	2879.80	-0.2	2884.39	2866.15	2865.41	2657.19	2.96	2.02	20.87	79.16	1078.15
42 Leisure & Hotels(25)	3251.53	+0.3	3241.78	3240.94	3247.88	2503.96	2.68	2.03	22.92	173.08	1768.23
43 Media(45)	4586.74	-0.8	4624.35	4593.03	4550.93	3370.53	1.99	2.05	30.68	91.70	1678.75
44 Retailers, Food(15)	2026.92	-0.3	2032.43	2018.76	2006.19	2024.56	3.87	2.38	13.71	63.74	1310.71
45 Retailers, General(45)	2190.01	-0.1	2191.18	2176.24	2165.98	1769.91	2.94	2.06	20.52	62.71	1272.62
47 Breweries, Pubs & Rest.(22)	3141.90	-0.5	3158.62	3154.90	3144.63	2607.04	3.29	1.98	19.19	68.29	1523.50
48 Support Services(50)	2638.29	-0.1	2638.53	2637.57	2641.01	1856.21	1.86	2.26	29.72	47.97	1692.99
49 Transport(23)	2597.83	-0.7	2615.94	2616.81	2593.84	2189.19	3.65	1.12	30.70	82.14	1103.75
60 UTILITIES(33)	2269.57	+0.8	2251.72	2235.19	2235.98	2510.56	5.70	1.76	12.48	167.56	1014.62
62 Electricity(12)	2320.59	+0.2	2315.91	2296.59	2301.25	2812.16	7.10	2.22	7.94	429.17	1256.58
64 Gas Distribution(2)	1256.42	.....	1256.42	1269.22	1285.22	1648.05	9.54	0.83	15.72	119.71	887.48
66 Telecommunications(8)	1968.67	+1.6	1937.56	1912.34	1906.68	2080.51	4.10	1.53	19.96	50.32	914.41
68 Water(11)	2112.24	-0.6	2124.13	2130.67	2124.50	2076.00	6.51	2.31	8.31	94.85	1194.81
69 NON-FINANCIALS(670)	2085.24	-0.2	2089.71	2081.38	2077.36	1846.25	3.74	1.82	18.34	76.90	1615.47
70 FINANCIALS(103)	3320.65	-0.5	3338.87	3329.49	3316.70	2719.65	4.00	2.36	13.26	123.91	1482.20
71 Banks, Retail(8)	4790.73	-0.7	4825.47	4900.71	4773.19	3806.42	3.79	2.71	12.16	175.96	1601.55
72 Banks, Merchant(6)	3763.60	-0.8	3793.95	3827.68	3848.49	3830.06	2.77	2.82	16.03	91.01	1210.04
73 Insurance(21)	1542.87	-0.9	1556.55	1567.46	1565.68	1382.39	5.45	2.27	10.10	79.70	1194.55
74 Life Assurance(7)	3866.84	-0.5	3886.09	3858.10	3846.08	3158.68	4.02	1.78	17.42	151.01	1644.04
77 Other Financial(20)	2685.06	+0.1	2682.82	2688.70	2692.37	2393.06	3.98	1.77	17.79	88.27	1557.12
79 Property(41)	1668.75	+0.6	1656.68	1655.50	1653.46	1350.82	3.85	1.26	25.79	47.56	1642.65
80 INVESTMENT TRUSTS(127)	3204.18	-0.3	3214.06	3221.28	3216.15	2918.17	2.23	1.11	50.41	60.09	1130.12
89 FTSE All-Share(900)	1989.00	-0.3	1994.54	1987.45	1982.94	1738.30	3.73	1.91	17.51	72.31	1716.56
FTSE Fledgling	1237.32	-0.2	1239.32	1238.90	1237.71	1078.10	2.80	0.68	65.39	29.86	1310.12
FTSE Fledgling ex IT	1248.48	-0.1	1250.19	1249.17	1247.96	1077.91	3.01	0.60	68.83	32.67	1323.73

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4068.3	4068.7	4066.2	4057.0	4060.6	4058.2	4057.2	4058.8	4058.4	4069.5	4055.9
FTSE 250	4453.3	4457.1	4458.6	4455.2	4456.0	4455.8	4454.7	4455.2	4453.3	4460.1	4452.7
FTSE 350	2019.8	2020.3	2020.3	2016.4	2017.8	2016.9	2016.4	2017.1	2016.7	2021.3	2015.8

Time of FTSE 100 Day's high: 8:43 AM Day's low: 2:33 PM. FTSE 100 1996 High: 4073.1 (21/10/96) Low: 3632.3 (16/07/96).

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1192.3	1192.4	1192.4	1192.1	1191.6	1190.9	1190.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks, Retail	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	177	490	-½
ASDA Group†	9,000	115½	-1
Abbey National†	6,400	600½	-4
Albert Fisher	2,100	42½	
Allied Domecq†	962	469	-4½
Anglian Water	273	533½	-4
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FTSE 100 index constituent.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 22 / Sch)

BELGIUM/LUXEMBOURG (Oct 22 / Frs.)

CZECH REP (Oct 22 / Koruna)

DENMARK (Oct 22 / Kr)

FINLAND (Oct 22 / Mka)

FRANCE (Oct 22 / Frs.)

GERMANY (Oct 22 / Dm.)

GREECE (Oct 22 / Drachma)

ITALY (Oct 22 / Lire)

NETHERLANDS (Oct 22 / Fls.)

NORWAY (Oct 22 / Kroner)

POLAND (Oct 22 / Zloty)

PORTUGAL (Oct 22 / Escudo)

SPAIN (Oct 22 / Pts.)

SWEDEN (Oct 22 / Kronor)

SWITZERLAND (Oct 22 / Frs.)

TURKEY (Oct 22 / TL Lira)

PACIFIC

JAPAN (Oct 22 / Yen)

HONG KONG (Oct 22 / H.K.$)

INDONESIA (Oct 22 / Rupiah)

MALAYSIA (Oct 22 / MYR)

NEW ZEALAND (Oct 22 / NZ $)

SINGAPORE (Oct 22 / S$)

SOUTH KOREA (Oct 22 / Won)

TAIWAN (Oct 22 / TW $)

THAILAND (Oct 22 / Baht)

AUSTRALIA (Oct 22 / Aus$)

AFRICA

SOUTH AFRICA (Oct 22 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 22 / Can $)
4 pm close

MONTREAL (Oct 22 / Can $)
4 pm close

INDICES

	Oct 22	Oct 21	Oct 18	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	16568.46	16956.06	18881.85	20/5	16287.26	22/8
Australia							
All Ordinaries(1/1/80)	2353.6	2363.2	2356.0	2368.20	15/10	2098.10	17/7
All Mining(1/1/80)	965.3	964.7	964.8	1118.40	8/5	923.10	23/8
Austria							
Credit Aktien(30/12/84)	371.31	374.04	374.86	394.98	31/5	349.19	6/9
Traded Index(2/1/91)	1088.60	1094.71	1093.00	1142.61	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1823.55	1820.87	1806.20	1829.85	3/10	1574.98	2/1
Brazil							
Bovespa(29/12/83)	(u)	67989.0	67981.0	67989.00	21/10	43881.00	2/1
Canada							
Metals Mnls♣(1975)	(u)	5124.63	5061.00	5824.60	8/5	4687.47	18/1
Composite♣(1975)	(u)	5518.10	5492.60	5518.16	21/10	4739.70	15/1
PortfolioSS(4/1/83)	(u)	2732.43	2721.40	2732.43	21/10	2327.38	12/1
Chile							
IPSA Gen♥(31/12/80)	(u)	5484.13†	5517.03	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	453.07	454.20	452.72	454.20	21/10	388.40	2/1
Finland							
HEX General(28/12/90)	2265.49	2254.25	2258.51	2265.49	22/10	1851.67	10/1
France							
SBF 250(31/12/90)	1463.55	1466.90	1468.67	1468.67	18/10	1258.16	2/1
CAC 40(31/12/87)	2175.61	2180.22	2185.23	2185.23	18/10	1897.86	11/1
Germany							
FAZ Aktien(31/12/58)	947.26	950.02	952.86	952.86	18/10	818.58	2/1
Commerzbank(1/12/53)	2768.20	2776.10	2782.80	2782.80	18/10	2378.18	2/1
DAX(30/12/87)	2718.98	2729.03	2734.82	2734.82	18/10	2284.86	2/1
Greece							
Athens SE(31/12/80)	918.46	913.98	929.28	1017.96	4/3	872.98	7/8
Hong Kong							
Hang Seng(31/7/64)	12444.86	(c)	12510.05	12510.05	18/10	10204.87	2/1
India							
BSE Sens.(1979)	3227.13	(c)	3130.21	4069.26	18/6	2826.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	571.80	572.46	570.20	639.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2691.28	2685.85	2673.60	2700.84	4/10	2234.61	2/1
Italy							
Banca Comm Ital(1972)	627.84	627.08	624.78	674.10	20/5	572.21	27/3
MIB General(2/1/96)	1066.0	1063.0	1059.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21123.68	21302.85	21612.30	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	296.73	299.09	302.82	319.70	25/6	294.48	11/3
Topix(4/1/68)	1583.81	1597.06	1615.21	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2080.24	2075.83	2082.43	2281.48	2/7	1982.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1175.98	1174.01	1175.60	1189.64	30/4	993.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3286.04	3319.64	3433.75	27/8	2736.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	696.0	695.1	695.6	696.00	22/10	539.50	2/1
CBS All Shr(End 83)	408.8	408.4	408.6	408.80	22/10	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2349.67	2367.78	2361.08	2367.78	21/10	2025.14	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1462.32	1468.53	1477.85	1494.96	15/10	1259.68	30/1
Philippines							
Manila Comp(2/1/85)	3073.12	3092.34	3099.73	3374.40	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1995.12	2000.24	2002.12	2013.16	9/10	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	504.36	503.78	509.44	610.37	5/2	503.78	21/10
South Africa							
JSE Gold(28/9/78)	1708.9♥	1676.6	1668.4	2030.40	29/5	1346.46	2/1
JSE Ind.(28/9/78)	8270.2♥	8262.9	8258.4	8739.30	25/1	7835.60	30/8
South Korea							
KoreaCompEx‡‡(4/1/80)	819.22	832.82	830.25	986.84	7/5	753.35	28/8
Spain							
Madrid SE(30/12/85)	383.38	383.22	380.82	383.38	22/10	323.75	11/1
Sweden							
AffarsvarldsGen(1/2/37)	2195.8	2198.6	2190.1	2198.60	21/10	1708.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1794.60	1801.07	1807.20	1813.19	15/10	1516.19	17/1
SBC General(1/4/87)	1274.36	1278.36	1283.11	1285.84	15/10	114.47	26/1
Taiwan							
WeightedPr.‡‡(30/6/66)	6426.30	6441.15	6475.42	6644.86	5/10	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	958.05	948.52	948.09	1415.04	6/2	905.34	15/10
Turkey							
Istanbul Comp.(Jan 1986)	81504.4	83300.9	81743.6	83300.90	21/10	38779.30	2/1
WORLD							
MS Capital IntS(1/1/70)	799.3*	801.7	803.5	802.80	21/10	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1788.23	1789.46	1787.73	1789.46	21/10	1504.40	11/1
Euro Top-100(26/6/90)	1509.75	1509.14	1509.85	1509.85	18/10	1339.01	11/1
HSBC JC Drgn(31/12/88)	(u)	391.77	392.66	392.86	18/10	344.19	2/1
ING Barings Emrg(7/1/92)	160.52	160.84	160.68	165.91	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Oct	2180.0	2182.0	-5.0	2187.0	2176.0	8,377	26,541
Nov	2185.0	2187.0	-5.0	2188.5	2183.0	550	3,370
DAX							
Dec	2735.5	2737.5	-9.5	2739.0	2729.0	16,687	85,986
Mar	2752.5	2756.0	-9.0	2756.5	2751.0	51	4,998
OMX							
Oct	1708.00	1703.25	-5.75	1716.00	1701.00	8,280	20,044
Nov	1716.50	1712.25	-5.75	1725.00	1710.75	4,051	6,040
SOFFEX							
Nov	3783.0	3778.5	-15.1	3792.0	3772.0	2,404	21,064
Dec	3786.9	3781.0	-4.0	3793.0	3784.7	17	542

Sat Oct 19: Taiwan Weighted Price 6431.95; Korea Comp Ex 831.18. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♣ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Oct 22- 2721.74 -11.63

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Oct 21	Oct 18	Oct 17	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6090.87	6094.23	6059.20	6094.23 (18/10)	5032.94 (10/1)	6094.23 (18/10/96)	41.22 (8/7/32)
Home Bonds	102.80	102.89	102.87	106.09 (14/2)	100.99 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2115.24	2116.42	2101.47	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	13.23 (8/7/32)
Utilities	223.52	224.57	222.88	234.00 (12/2)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6162.80 (6119.57) Low 6027.89 (6011.49) (Theoretical♣)
Day's high 6133.73 (6094.97) Low 6059.94 (6040.19) (Actual♣)

Standard and Poors	Oct 21	Oct 18	Oct 17	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	709.85	710.82	706.99	710.82 (18/10)	598.48 (10/1)	710.82 (18/10/96)	4.40 (1/6/32)
Industrials♥	837.21	839.55	835.40	839.55 (18/10)	702.07 (15/1)	839.55 (18/10/96)	3.52 (30/6/32)
Financial	76.00	75.54	74.91	76.00 (21/10)	58.67 (10/1)	76.00 (21/10/96)	7.13 (4/9/74)
NYSE Comp.	377.92	378.32	378.41	378.32 (18/10)	321.41 (10/1)	378.32 (18/10/96)	4.64 (25/4/42)
Amex Mkt Val	576.87	579.03	577.39	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1236.41	1242.48	1241.97	1258.10 (15/10)	988.57 (15/1)	1258.10 (15/10/96)	54.87 (3/10/74)

■ RATIOS

	Oct 18	Oct 11	Oct 4	Year ago
Dow Jones Ind. Div. Yield	2.12	2.16	2.15	2.42
	Oct 16	Oct 9	Oct 2	Year ago
S & P Ind. Div. yield	1.92	1.95	1.95	2.10
S & P Ind. P/E ratio	22.13	22.84	22.74	17.68

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Xerox	9,080,900	46½	-2⅝
IBM	8,328,000	130	+½
McDonalds	6,686,100	44½	-1⅛
Puget Snd	5,689,500	22⅝	-⅛
Union Pac	5,010,300	27⅝	+¾
EMC Corp	4,850,700	27⅝	+1
PepsiCo	4,339,100	29⅝	-⅛
Lucent Tech	3,476,300	46⅞	-¾
Php Morris	3,442,500	93⅞	+1⅛
Gen Instr	3,038,500	22⅞	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Oct 21	Oct 18	Oct 17
New York SE	414.615	467.939	478.549
Amex	18.748	18.644	17.902
NASDAQ	466.125	573.403	592.304
NYSE			
Issues Traded	3,259	3,227	3,250
Rises	1,081	1,340	1,412
Falls	1,313	1,038	949
Unchanged	865	849	889
New Highs	202	191	197
New Lows	38	28	23

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	714.55	713.40	-1.00	713.40	712.80	87,827	182,960
Mar	719.70	719.60	-1.25	719.70	719.60	358	5,119

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	21130.0	21170.0	-140.0	21250.0	21060.0	20,899	204,037
Mar	21200.0	21150.0	-220.0	21250.0	21150.0	29	12,082

Open interest figures are for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, October 22, 1996

	Stocks Traded	Closing Prices	Change on day
Sumitomo Mtl Ind	4.1m	310	-4
NEC Corp	3.8m	1220	-20
Fuji Heavy Ind	3.8m	542	-1
NKK Corp	3.5m	284	-4
Sumitomo Seika	3.4m	900	+40
Sumitomo Tr & Bk	3.1m	1280	
Miyakoshi Corp	2.8m	868	+66
Hitachi	2.8m	1030	-20
Canon	2.5m	2210	-70
Nissho Iwai	2.4m	520	

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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NEW YORK STOCK EXCHANGE PRICES

4 pm close October 22

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26	17	AAR	0.48	1.8	24	637	u26	26	26	+
46	36	AMP	1.00	2.6	18	2522	38	38	38	+
97	68	AMR			16	10806	82	81	81	+
50	37	ASA	2.00	5.1	26	1278	39	39	39	+
53	38	Abbtl. x	0.98	1.9	21	11067	51	50	50	-1
17	12	Abitibi Pr	0.40	3.1	6	225	12	12	12	+
20	13	ABM Ind x	0.35	1.9	18	3	18	17	18	+
21	13	Acptncein			40	27	19	19	19	-
57	37	ACE Ltd	0.56	1.1	12	478	54	52	53	-
10	9	ACM Gvt In	0.48	4.7	8	101	u10	10	10	+
7	6	ACM GvOpp	0.57	8.1		298	7	7	7	-
9	8	ACM Man	0.90	9.5		257	9	9	9	
13	6	Acme Elect	0.32	3.9	135	109	8	8	8	-
18	13	Acme Mtls			11	14	17	17	17	
33	27	Acordia	0.72	2.4	17	4	30	30	30	
21	12	Acuson			99	2629	20	19	19	+1
20	17	Adams Expr	0.48	2.4	1	585	20	20	20	
21	10	AdvMic			17	7706	17	17	17	-
11	8	Advest Grp	0.16	1.8	6	505	9	9	9	-
26	9	Advo Inc	0.10	0.7	667	195	13	13	13	+
53	41	Aegon	1.45	2.7	16	51	u53	53	53	+
6	3	Aerflx			2	83	4	4	4	+
70	57	Aetna	0.80	1.3	7	4554	64	63	63	-1
38	28	Aflac$	0.40	1.1	16	1967	38	37	37	+
21	17	AGL Res	1.08	5.1	17	629	u21	20	20	-
30	21	Ahmnsn	0.88	3.0	52	3780	29	29	29	
62	50	AirPrC	1.10	1.8	16	1120	62	61	61	-
22	19	Airbne Frt	0.30	1.4	14	1327	21	20	21	-
25	15	Airgas Inc			35	1777	23	21	22	-
18	13	Airlease	1.80	12.1	9	68	15	14	14	
33	25	AirTch			72	5792	25	25	25	-
30	15	Alaska Air	0.20	0.9	8	1653	22	20	22	+1
22	17	Albany Int	0.40	1.8	14	246	22	22	22	-
[illegible]										

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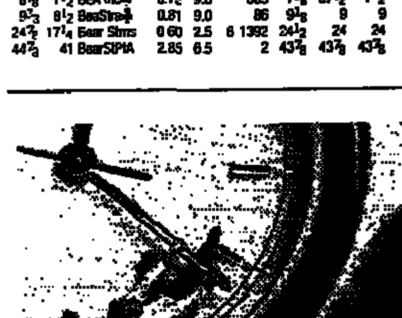

Continued on next page

NYSE PRICES

4 pm close October 22

[illegible]

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Price	Chng
11⅜	10½	Zweig Fund x	1.08	9.9		189	11	10⅞	10⅞	
9	8¼	Zweig Tot x	0.84	10.0		239	8½	8⅜	8⅜	-⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX PRICES

4 pm close October 22

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NumacE		117	5	4 11/16	4 11/16	4 11/16	+1/16
NVR		6	29	9	9	9	
Pegasus G	0.10	105	2242	10¾	10⅜	10½	+¼
Pertol	0.80	1	25	8⅞	8⅝	8⅝	-⅛

[illegible]

NASDAQ NATIONAL MARKET

4 pm close October 22

[illegible]

Dow slips after mixed results

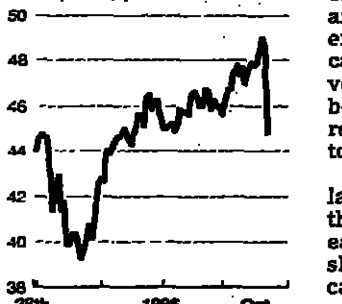
AMERICAS

US equities slipped yesterday as technology stocks continued to retreat from recent highs, in spite of strong earnings reports from several of the sector's leading companies, *writes Lisa Bransten in New York.*

By 1pm, the Dow Jones Industrial Average was off 27.58 at 6,063.29, the Standard & Poor's 500 fell 3.62 at 706.23 and the American Stock Exchange composite was 2.09 weaker at 574.78. Volume on the NYSE came to 228m shares.

Meanwhile, the Nasdaq composite, which is about 40 per cent technology shares,

Salomon



lost 12.75, or 1 per cent, at 1,223.55 *in spite of a strong* earnings report late on Monday from Microsoft. The *Pacific Stock Exchange* technology index also lost 1 per cent.

Microsoft, which had added about 10 per cent from the beginning of September to the end of last week, slipped $1¾ at $132¼, although it reported earnings of 95 cents a share, 5 cents ahead of analysts' estimates. Intel, which saw its shares soar after surprisingly strong results two weeks ago, slipped $2¾ to $105¾.

Not all earnings reports in *the technology sector were* positive, however. The computer maker, Digital Equipment, tumbled $5, *or 15 per* cent, to $29¾ after reporting a loss of 48 cents a share, nearly four times as large as most analysts were expecting.

Also troubling the sector was a warning from CompuServe, the online service provider, that it expected second-quarter losses would be greater than it had previ*ously indicated. Shares in* the company slipped $1, or nearly 10 per cent, to $9¼. Its rival, America Online, lost $¾, or 3 per cent, at $26.

Outside the technology sector, Salomon, parent of Salomon Brothers, the investment bank, gave up $3¾, or 8 per cent, at $45 after reporting third-quarter earnings well below both the profits made in the comparable period last year and analysts' estimates.

Philip Morris, the tobacco giant which is a component of the Dow, fell $1¼ at $92¾ after reporting earnings exactly in line with forecasts. Its shares had been volatile in recent sessions because of developments related to litigation against tobacco companies.

Results were mixed for the largest drug companies in the US, all of which reported earnings in line with, or slightly better than, forecasts. Bristol-Myers Squibb rose $1¾ to $105¾ and Eli *Lilly $1¼ at $70, while Amer*ican Home Products lost $⅞ at $65¼ and Warner Lambert *fell $⅞ at $65⅝.*

TORONTO moved counter to Wall Street during the morning session, making steady gains in contrast to the early losses shown by the US market. At noon, the 300 composite index was 29.44 ahead at 5,547.52.

Consumer products stocks were the best performing sector, staging an advance of 1.7 per cent. Mining and banking shares also showed up well, although energy stocks slipped 0.26 per cent.

Seagram was a strong market, rising C$1.50 to C$49.25 and Northern Telecom gained from solid third-*quarter results. The shares* added 70 cents to C$81.70.

Among banks, Royal Bank *of Canada gained 30 cents to* C$43.50 and Toronto-Dominion Bank moved a similar amount to C$31.10.

Mexico remains down

MEXICO CITY stayed on the sell side as worries about the peso, interest rates and forthcoming results continued to sap investor confidence.

At midsession, the IPC general index was off 30.86 at 3,355.18. *Grupo Mexico B* shares shed 55 centavos to 22.10 pesos after the mining group turned in "disappointing" results.

CARACAS recovered strongly, a renewed wave of privatisation excitement sweeping through the market and the IBC index up more than 3 per cent at the close of the morning session. Off 106 points on Monday, *the index stood at 5,856.53,* up 204.81. **SAO PAULO**, trading quietly, saw the midses*sion Bovespa index off 684* at 87,306.

S Africa up on back of gold

Gold shares held centre stage in Johannesburg, rising sharply on the back of a perkier bullion price.

The overall index showed little change at the close, ending 16.3 better at 7,027.8 and industrials were in similar form at 8,270.2, up 7.3. But golds were noticeably active and at the close the index was 32.3 higher at 1,708.9.

"The broad market traded narrowly ahead of today's September inflation number, but there was plenty of action in golds," said one dealer.

Freegold gained R1.85 to R42.85 and Dries put on R1.75 to R56.60.

Dresdner leads as Frankfurt raises banks

EUROPE

Senior bourses were subdued, **FRANKFURT** seeing Deutsche Telekom shade a little in the grey market and turning to banks and, in particular, Dresdner. The Dax index closed 11.93 lower at an Ibis-indicated 2,721.74.

Turnover rose from DM7.3bn to DM8.5bn. Telekom moved down to the DM33.70 to DM34.70 range. Goldman Sachs raised its recommendation for Dresdner to "market outperformer" from "market performer" and its 1997 earnings per share estimate from DM2.90 to DM3 a share. The shares rose 95 pfg, or 2.4 per cent, to DM40.95.

On the sector in general, traders expected commission income from the sale of securities, as well as income from own-account trading, to have risen significantly in the past nine months. They also saw a fat rise in fees and commissions from the Telekom flotation.

In cyclicals, hit by profit-taking, chemicals were led down by BASF, 86 pfg or 1.7 per cent lower at DM48.51. Daimler fell 90 pfg to DM89.13 and the fork-lift leader, Linde, by DM17, or 1.75 per cent, to DM953.

Elsewhere, the retailer, Metro dropped DM4.05 to DM133 after it produced nine-month sales slightly below analysts' expectations.

ZURICH was disappointed by nine-month sales figures from the Novartis partners. Ciba registered fell SFr12 *to SFr1,576 and Sandoz*

FTSE Actuaries Share Indices

Oct 22							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1788.93	1788.87	1788.80	1789.49	1788.91	1788.38	1787.77	1788.23
FTSE Eurotrack 200	1843.22	1842.22	1842.20	1842.39	1843.39	1843.47	1842.97	1843.38

	Oct 21	Oct 18	Oct 17	Oct 16	Oct 15
FTSE Eurotrack 100	1789.46	1787.73	1771.25	1768.99	1774.44
FTSE Eurotrack 200	1840.58	1841.20	1826.76	1825.03	1831.79

Base value 1000 (26/10/90); High/day: 100 - 1789.85; 200 - 1844.89 Low/day: 100 - 1787.10 200 - 1841.28. † Partial.

by SFr11 to SFr1,484.

However, there was a general lack of enthusiasm as the SMI index closed 12.9 lower at 3,775.3. A 24 per cent increase in nine-month *profits at ABB was greeted* by a fall of SFr9 to SFr1,569.

There was real fear over Swissair, where speculation turned to the possibility of additional restructuring charges in the current year, and the company's registered shares fell another SFr31 to SFr970.

PARIS had another bout of Lagardère fever, although there were signs that the company's meteoric rise was running out of steam.

Up more than 5 per cent at one stage at FFr186, the shares ended FFr1.20 better at FFr177.80 in volume of 3.5m shares, which made them easily the day's most actively traded stock.

Following the surprise announcement that Lagardère and not Alcatel Alsthom had won the bidding for Thomson, the shares jumped more than 40 per cent in three straight sessions.

Brokers had upgraded earnings estimates dramatically, but it was the prospect of a steep rise for net asset value which mostly fuelled the recent share price strength. NAV estimates in Paris ranged from FFr260 to FFr280 a share, against *FFr160 prior to the Thomson* deal.

Promodes, the top retailer, added FFr15 to FFr1,435, and solid third-quarter results from a number of US oil giants helped Elf Aquitaine rise FFr3.40 to FFr425.90.

At the close, the CAC 40 index was off 4.61 at 2,175.61, having traded with a range of less than eight points throughout the session.

AMSTERDAM continued to trade narrowly with investors staying cautious ahead of tomorrow's third-quarter results from the electronics giant, Philips. The AEX index ended up 0.68 at 593.11.

Philips shed 30 cents to Fl 59, and Unilever also lost ground, retreating Fl 2.10 to Fl 267.60. Remarks by the company led to talk that Unilever's planned reorganisation would be less far-reaching than expected.

The overall mood was downbeat, but Royal Dutch was a strong market thanks to good US oil results, gaining Fl 3.20 to Fl 294.30.

KLM put on 30 cents to Fl 42.30 as investors peered ahead to November 5 and the third-quarter results. There had been talk that KLM would unveil its own airline partnership deal.

MILAN moved gently higher in dull volume as pre*liminary inflation data for* October suggested that CPI growth was slowing. The Comit index ended up 0.53 at 151.31.

Olivetti was struck by a fresh wave of selling and shares in the troubled elec*tronics group sank to a* all-time low of L435, down L15. Fiat continued to recover, adding L68 to L4,235.

MADRID hit a second successive all-time high, but only just, with a percentage point gain in banks cancelling out profit-taking, and a similar loss in electricity utilities. BCH rose Pta100, or 3.4 per cent, to Pta3,020, and Endesa fell Pta140 to Pta8,080 as the general index rose 0.16 to 383.88.

STOCKHOLM fell just short of Monday's peak, the Affärsvärlden General index easing 3.0 to 2,195.6. Here, too, banks were relatively strong, Handelsbanken rising SKr2.50 to SKr160.50 after it said that it might initiate a share buy-back.

ISTANBUL took profits and dropped 2.2 per cent, the composite index closing 1,796.55 lower at 81,504.41 in turnover down from TL38,830bn to TL17,300bn. Brokers said that further consolidation could take place after a 28.6 per cent gain since September 13, but they also expected selective demand to be fuelled by nine-month profit figures.

WARSAW took an old-fashioned look at the "restructuring" theme, the brewer, Zywiec, plunging 14.50 zlotys, or 10 per cent, to 130.5 after Monday's news that the company was shutting down one of its breweries and sacking 145 of its 990 employees.

The broad market's Wig index dropped another 246.9 to 14,133.4, taking its fall to 6.3 per cent since its October 9 high. Turnover rose 5.3 per cent to 103.2m zlotys.

EUROPEAN EQUITIES TURNOVER Monthly total in local currencies (bn)					
Bourse	June 1996	July 1996	Aug 1996	Sep 1996	US $bn
Belgium	87.28	110.84	84.754	110.65	3.52
Denmark	37.96	30.62	32.90	37.51	6.40
Finland	15.36	11.77	13.99	14.40	3.15
France	247.54	295.40	131.51	225.15	43.61
Germany	200.66	187.73	124.14	168.24	110.25
Italy	54,928	52,068	41,528	50,252	33.01
Netherlands	44.20	46.70	42.10	47.10	27.51
Norway	32.28	24.40	29.80	47.00	7.23
Spain	1,436.43	1,566.70	892.84	1,345.32	10.48
Sweden	129.40	119.39	116.00	148.20	22.36
Switzerland	40.95	51.07	27.78	30.19	24.07
UK	55.35	60.15	54.10	58.10*	90.87

Volumes represent purchases and sales.
**Estimated*
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

September saw a partial recovery in turnover at Europe's top 12 bourses, up 26.3 per cent on the month, but still 6.6 per cent below July levels.
The biggest increases came in the markets where share prices rose most strongly, France's domestic business gaining 71.2 per cent on an index gain of 6.5 per cent, and Italy's 59.5 per cent on a 6.2 per cent index rise, says Mr James Cornish, European strategist at NatWest Securities, which produces the turnover figures.
Norwegian domestic turnover rose 57.7 per cent to a record level. With Seaq International, the screen-based trading system in London, producing turnover gains for the three nations of 33.9 per cent, 18.4 per cent and just 2.2 per cent respectively, domestic investors seem to have been the main force.

Written and edited by William Cochrane and Jeffrey Brown

Bombay bulls celebrate credit policy changes

ASIA PACIFIC

Shares in **BOMBAY** moved ahead strongly as investors, fresh from Monday's national holiday, put a bullish interpretation on the central bank's credit changes.

The BSE index gained 3.1 per cent after an active session, which was said to have seen heavy buying by foreign funds. It closed 96.92 higher at 3,227.13.

Central bank moves to ease credit policy were seen as a clear boost to sentiment. The measures *included a reduction in bank* reserve requirements and a reduced interest cap on short-term deposits.

KARACHI rose by more than 2 per cent, on what dealers described as speculative buying and short-covering, sparked by the devaluation of the rupee.

The currency was devalued by 7.86 per cent against the dollar and at the end of the session the 100 index was 29.00 higher at 1,394.73.

Hub Power was the most active stock, rising PRs0.85 to PRs31.65 in volume of 3.8m shares.

TOKYO saw continuing *hesitation among investors* in the wake of Sunday's general election and Monday's losses widened in spite of *late bargain hunting, writes Gwen Robinson.*

The Nikkei 225 average slid another 179.27 to 21,123.68 after moving between 21,022.76 and 21,245.76. Volume edged up to an estimated 278m shares from Monday's 221m.

The Topix index of all first-section stocks fell 13.25 to 1,583.81 and the capital-weighted Nikkei 300 by 2.36 at 296.73. Declines overwhelmed advances by 937 to 146 with 150 unchanged.

In London, the ISE/Nikkei 50 index fell 0.20 to 1,438.17.

Analysts said the market was likely to continue seesawing, at least until after the November 7 inauguration of a coalition government headed by the conservative LDP.

By then, they said, investors would hope to see evidence of the government's commitment to carrying through with pre-election *promises of economic stimu*lus measures. However, in the short term, the start this *week of the interim corpo*rate earnings period is likely to bring selective buying.

Almost 1,500 companies, or more than 80 per cent of those listed on the stock exchange, will report their earnings for the April-September first half by the end of November.

The Big Four securities houses, which yesterday reported lower-than-expected interim earnings, all lost ground. Daiwa Securities fell Y20 to Y1,260 and Nomura Y20 to Y1,900.

Foreign investors increased their recent selling, particularly of interna*tional blue chips. Canon slid* Y70 to Y2,210, NEC Y20 to Y1,220, and Sony fell Y90 to Y6,930. Carmakers also came under pressure with Honda down Y30 at Y2,700 and Toyota Motor off Y30 at Y2,730.

There was speculative trade in the construction sector which was weak on Monday in the wake of the election. Komatsu Construction rose Y54 to Y858.

In Osaka, the OSE average fell 247.16 to 21,717.40 in volume of 19.85m shares.

SEOUL fell 1.6 per cent, concerned at high levels of margin loans at brokerage houses following buying of speculative, second-line stocks. It was also disappointed in its interest rate hopes after a rise of 16 basis points to 12.10 per cent in the yield on three-year corporate bonds. The composite index ended 13.40 lower at 819.22.

SYDNEY closed lower after a broker downgrade at News Corp. The All Ordinaries index fell 9.6 to 2,353.6.

News Corp dropped 20 cents to A$7.17 and the preferred shares fell 19 cents – more than 3 per cent – to A$5.86 following a move from buy to attractive by Paine Webber. The broker downgrade, combined with News Corp's wrangle with the Israeli tax authorities, was said to have put a severe dent in investor sentiment.

Westpac added 17 cents to A$6.76 amid intensifying takeover speculation. Goodman Fielder came off 9 cents to A$1.44 after the resignation of its finance chief.

WELLINGTON had an active day. The 40 Capital index closed 18.11 lower at 2,349.67. NZ Telecom, up 10 cents on Monday, retreated 7 cents to NZ$7.52.

KUALA LUMPUR saw a 1.2 per cent climb in secondary stocks as the blue-chip composite index rose just 1.97 to 1,175.98. Repco fell M$5.50, or 6.4 per cent, to M$80.50 – its chief executive officer was charged with violating a securities law. Proton, expected to post strong half-year earnings, rose 30 cents to M$15.30.

BANGKOK had another day on the upgrade as the third-quarter results season continued to buoy investor sentiment. The SET index rose for the fifth day running, closing 9.58 higher at 958.05. Volume was Bt3.5bn.

TAIPEI closed lower after profit-taking erased early gains. The weighted index was hit by heavy selling in the last hour, closing 14.85 lower at 6,426.30.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 21 1996								FRIDAY OCTOBER 18 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	215.24	0.7	200.62	153.38	171.90	179.56	0.5	4.24	213.74	199.16	152.10	171.46	178.73	215.24	179.77	182.80
Austria (24)	182.17	0.7	169.80	129.82	145.49	145.38	0.3	1.94	180.88	168.55	128.71	145.10	144.99	195.04	169.36	170.08
Belgium (27)	219.84	1.2	204.92	156.66	175.58	171.59	0.8	3.89	217.16	202.35	154.53	174.20	170.27	221.99	193.45	194.19
Brazil (28)	188.55	0.2	175.76	134.36	150.59	355.71	0.3	1.72	188.10	175.27	133.85	150.89	354.78	189.70	123.97	151.41
Canada (116)	177.94	0.4	165.86	126.80	142.11	173.73	0.3	2.05	177.21	165.13	126.11	142.16	173.12	177.94	134.14	140.54
Denmark (30)	336.30	0.9	313.46	239.65	268.58	269.00	0.5	1.71	333.19	310.47	237.10	267.28	267.80	336.30	276.89	285.19
Finland (23)	220.75	0.1	205.76	157.31	176.30	213.10	–0.2	2.34	220.65	205.60	157.01	177.00	213.61	235.98	171.73	235.98
France (93)	201.77	0.3	188.07	143.79	161.15	164.29	–0.1	2.98	201.14	187.43	143.13	161.35	164.48	201.77	167.70	168.74
Germany (58)	180.62	0.2	168.35	128.71	144.25	144.25	–0.2	1.71	180.25	167.96	128.27	144.60	144.60	180.62	155.66	161.14
Hong Kong (59)	469.43	0.0	437.56	334.52	374.91	466.00	0.0	3.26	469.39	437.38	334.02	376.54	465.96	470.59	354.67	381.83
Indonesia (27)	*205.36*	*0.7*	*191.42*	*146.34*	*164.01*	*292.85*	*0.9*	1.72	*203.91*	*190.00*	*145.10*	163.57	290.85	–	–	–
Ireland (16)	310.15	0.6	289.09	221.02	247.70	272.79	0.5	3.30	308.33	287.30	219.40	247.33	271.40	310.15	241.27	247.81
Italy (58)	78.03	0.5	72.73	55.61	62.32	89.36	0.3	2.30	77.63	72.34	55.24	62.27	89.04	84.53	67.22	69.24
Japan (480)	143.11	–1.4	133.39	101.98	114.29	101.98	–1.2	0.75	145.08	135.18	103.24	116.38	103.24	164.66	137.75	146.25
Malaysia (107)	581.83	–0.1	542.42	414.69	464.76	561.92	–0.2	1.17	582.81	543.07	414.73	467.52	562.84	585.09	425.77	471.80
Mexico (27)	1220.72	–1.0	1137.83	869.90	974.93	10320.37	–0.9	1.33	1233.35	1149.23	877.65	989.37	10411.58	1325.65	791.99	1005.47
Netherland (19)	312.26	0.4	291.05	222.52	249.38	245.61	0.0	3.00	311.00	289.79	221.31	249.48	245.72	312.26	251.81	258.02
New Zealand (15)	*94.35*	*1.5*	*87.94*	*67.23*	*75.35*	*70.24*	*0.5*	*3.91*	*92.97*	*86.63*	*66.16*	*74.58*	*69.90*	*94.35*	*75.94*	*82.72*
Norway (35)	263.17	0.0	245.30	187.54	210.18	232.48	–0.3	2.18	263.20	245.25	187.29	211.13	233.26	265.73	222.24	238.86
Philippines (22)	195.61	–0.4	182.32	139.39	156.22	256.08	–0.4	0.63	196.37	182.98	139.74	157.52	257.08	–	–	–
Singapore (43)	371.28	–1.7	346.07	264.56	296.52	242.05	–1.7	1.15	377.53	351.78	268.65	302.85	246.16	465.21	361.94	371.22
South Africa (44)	346.10	–0.2	322.60	246.63	276.41	345.21	0.0	2.22	346.76	323.11	246.76	278.17	345.16	437.76	314.20	364.30
Spain (37)	188.30	1.5	175.51	134.18	150.39	184.33	1.1	3.19	185.44	172.79	131.96	148.75	182.29	188.30	145.15	148.56
Sweden (48)	398.97	0.6	371.88	284.31	318.64	390.83	0.3	2.19	396.56	369.52	282.19	318.12	389.63	398.97	294.19	317.16
Switzerland (37)	*245.14*	*0.2*	228.49	174.69	195.78	192.17	–0.4	1.54	244.55	227.87	174.02	196.16	192.99	254.34	219.07	223.54
Thailand (45)	118.86	0.5	110.80	84.58	94.77	117.38	0.5	2.92	118.04	109.99	83.99	94.69	116.79	193.95	112.17	163.17
United Kingdom (213)	260.33	0.4	242.66	185.52	207.92	242.66	0.4	3.89	259.37	241.68	184.57	208.06	241.68	260.33	222.29	225.89
USA (623)	288.88	–0.2	269.26	205.86	230.71	288.88	–0.2	2.06	289.37	269.64	205.92	232.13	289.37	289.37	236.38	240.88
Americas (794)	264.26	–0.1	246.31	188.31	211.05	222.12	–0.1	2.05	264.65	246.60	188.32	212.30	222.46	264.65	215.17	219.74
Europe (718)	224.76	0.4	209.50	160.17	179.50	195.61	0.1	2.98	223.82	208.56	159.27	179.55	195.21	224.76	191.44	194.43
Nordic (136)	339.22	0.5	316.19	241.73	270.92	292.89	0.2	2.14	337.46	314.44	240.13	270.70	292.32	339.22	261.13	288.30
Pacific Basin (876)	158.95	–1.0	148.16	113.27	126.95	114.49	–0.9	1.22	160.62	149.67	114.30	128.85	115.59	177.01	148.86	156.73
Euro-Pacific (1594)	186.25	–0.3	173.60	132.72	148.75	145.04	–0.4	2.08	186.83	174.09	132.95	149.87	145.61	190.57	168.51	172.35
North America (739)	282.16	–0.1	263.00	201.07	225.35	281.25	–0.1	2.06	282.57	263.30	201.08	226.67	281.67	282.57	230.17	234.68
Europe Ex. UK (505)	200.84	0.4	187.20	143.12	160.40	168.02	0.0	2.37	199.95	186.32	142.28	160.40	168.01	200.84	170.51	173.44
Pacific Ex. Japan (396)	299.31	0.1	278.99	213.29	239.05	257.86	–0.0	2.88	299.03	278.64	212.79	239.88	257.67	299.31	243.59	256.54
World Ex. US (1809)	188.16	–0.3	175.38	134.08	150.27	150.07	–0.4	2.06	188.69	175.82	134.27	151.36	150.61	191.55	167.36	173.30
World Ex. UK (2219)	215.77	–0.3	201.12	153.76	172.32	184.75	–0.3	1.87	216.41	201.65	154.00	173.60	185.40	216.41	185.61	190.92
World Ex. Japan (1952)	260.37	0.1	242.69	185.54	207.94	248.10	0.0	2.40	260.22	242.47	185.17	208.75	248.19	260.37	217.26	220.75
The World Index (2432)	219.60	–0.2	204.69	156.49	175.38	189.97	–0.3	2.07	220.11	205.10	156.63	176.57	190.50	220.11	188.67	193.98

Latest prices were unavailable for this edition. Market closed 21/10/96: Hong Kong.

ALUMINIUM

Market still waits on Russia

The results of privatisation, deregulation and restructuring augur well for the future, writes Kenneth Gooding

No other industry has been so fundamentally affected by the collapse of the Soviet Union and other centrally planned economies as the global aluminium industry. Aluminium, gas and oil have been the main foreign exchange earners for the Commonwealth of Independent States since the break-up. Russia's aluminium exports at one time threatened the very existence of large parts of the western industry when they jumped from 500,000 tonnes to 2m tonnes a year.

That threat is gone. Russian exports, according to Mr Jacques Bougie, president of Alcan of Canada, "are no longer a nuisance but are now an essential part of western supply." Any interruption to Russian exports would cause aluminium prices to rocket, he says.

Apart from the surge in exports, the worldwide movement towards the privatisation that followed collapse of the former Soviet Union and the movement towards market economics in its former satellite countries and China, have also been affecting the aluminium industry and brought great benefits.

"It is inconceivable that this retreat of the state will not have effects on the industry's long term behaviour," says Mr David Humphreys, deputy chief economist at RTZ-CRA, the world's biggest mining company. "State involvement has for years been blamed for an unhelpful reluctance to close uneconomic capacity or to close non-viable projects for reasons of prestige or job creation."

The privatisation process has gathered speed in the past year. In Europe, the Italian government sold its stake in Alumix to Alcoa of the US, the world's biggest aluminium group. The French government released its hold on Pechiney, Europe's biggest aluminium company, by floating it on the Paris and New York stock exchanges.

The Spanish and Polish governments let it be known that their holdings in aluminium producers Inespal and Huta Aluminium Konin respectively were up for sale. Hungary privatised Inota, its sole remaining smelter.

Elsewhere, Brazil and Venezuela pushed forward plans for selling off their shareholdings in the industry. The Aluminium Company of Egypt underwent a partial privatisation. Small divestments were made by the state authorities in Canada and India.

In China, in the first deal of its kind, Kaiser Aluminium of the US has permission to acquire a 49 per cent stake in two smelters in return for a commitment to modernise and expand them.

Russia has seen the biggest privatisation of all. At the first Financial Times/CRU International aluminium conference in June, Mr Alan Bekhor, managing director of Trans-World Metals, the UK-based organisation, suggested his group was now the world's third largest aluminium producer because, with Russian associates, it owned more than 50 per cent of Russia's two biggest smelters, Bratsk and Sayansk. Mr Bekhor said the privatisation process had now ended. "Most of the plants having passed through major restructuring and privatisation, have acquired a framework of stable ownership and management control. Western companies have now either made their move or stayed aloof."

The aluminium industry is also benefiting from moves in the European Union and the US to deregulate electricity power supplies. Aluminium smelters are huge consumers of energy – an average sized smelter of 250,000 tonnes a year needs as much energy as a town of 500,000 people. Mr Jochen Schirner, chairman of VAW Aluminium of Germany, says that this trend will help the industry to keep down its costs. "The liberalisation of the energy market will lead to substantial relief. Smelters in the US have recently experienced this. In Europe we expect electricity price reductions in the next few years."

Mr Humphreys at RTZ says the combination of privatisation and power deregulation "may produce some surprising results." Under a market-based system investors will be more sensitive to capital costs and political security when considering new smelter projects, he says. So "the expansions to smelting announced or completed in 1995 were not in regions that have been hailed as the most likely targets for future investment such as Latin America and the Middle East but in Europe – Slovakia, Norway and Iceland. Even in the US, where the last new smelter started up in 1975, there has been talk of smelter expansions in the wake of power deregulation."

It is not only the former state-owned aluminium companies that have changed. The big private groups that for many years concentrated on building a global presence and spreading their production operations into many downstream areas, have been rationalising. As Mr Schirner says: "Most companies now have clear focuses with regard to their activities and their product range. The integrated groups are no longer merely 'expanded' aluminium smelters: the focus increasingly is on fabrication. The requirements of investors are now more stringent. 'Shareholder value' has become a central theme of the industry's management practice. Rigorous cost management and lean structures are essential prerequisites for achieving higher returns."

Some analysts suggest there is room for more consolidation in the industry. An attempt in this direction was made by Kaiser this year but its overtures were rejected by Alumax, another US group.

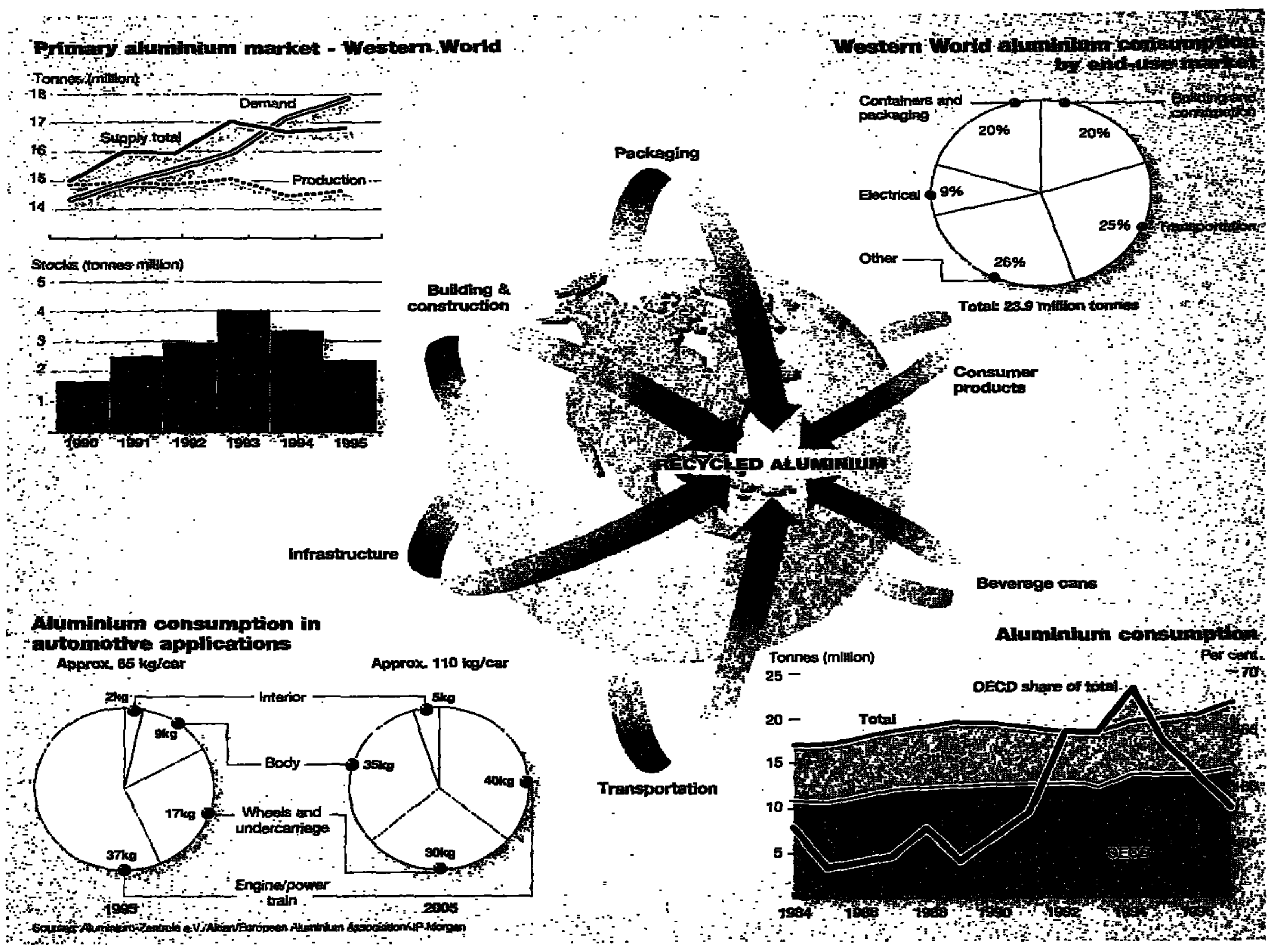
As for the short term health of the industry, a key feature again is the self-restraint being shown by the western producers who for the most part kept closed the capacity they shut down temporarily to make room for the flood of Russian imports. About 1m tonnes of annual capacity remains shut, much of it owned by Alcoa and Reynolds Metals in the US and Pechiney in Europe, and seems unlikely to reopen until market conditions improve.

Stocks in the west have consequently dropped from a peak of 4.5m tonnes in 1993 to 2.6m tonnes today.

Demand for aluminium in the west had shown 13 years of continuous growth by the end of 1995. However, growth has flattened after a surge of nearly 10 per cent in 1994. Last year, according to Brandeis (Brokers), part of the Pechiney group, consumption in the west was up by 0.9 per cent to 17.44m tonnes. Total supply (including 2.15m tonnes of net imports from the former eastern bloc) was 16.78m tonnes, leaving a supply deficit of 664,000 tonnes. This year has been a disappointing one for the industry. Brandeis expects demand to be up by only 0.3 per cent to 17.49m tonnes and supply (including 2.37m tonnes of net imports) to be 17.87m tonnes, giving a surplus of 375,000 tonnes.

Nevertheless, the industry remains extremely confident about the future. The motor industry is using much more aluminium to cut the weight of vehicles. The use of aluminium packaging – particularly cans for fizzy drinks in hot countries – has a great deal of growth to come. Recycling beverage cans helps the industry to promote a "green" image.

Demand from the Asian "tiger" countries outside Japan has been growing by an annual 8 per cent. Kaiser's Mr Haymaker says that, if developing countries with a present annual income of $5,000 a head move up to $10,000, global aluminium capacity would have to be lifted from the present 20m tonnes to nearly 50m tonnes. Mr Schirner adds: "Prospects for our industry are good. Potential demand is high from new applications and new countries. Supply is secure, both raw materials and secondary metals. The price of aluminium will in real terms fall further. We are taking the offensive with regard to ecological problems. And we have restructured our companies to match future challenges."



■ **Russia:** by Chrystia Freeland

A dynamic but savage sector

It faces problems from electricity and transport costs and domestic demand

With the collapse of the Soviet Union, the Russian aluminium industry quickly emerged as one of the most dynamic, and sometimes savage, sectors in the country's newly liberated economy.

Western traders and Russian directors struggled for control of the country's massive smelters, in battles so intense that at least six businessmen involved in the aluminium industry were killed in what appeared to be contract killings.

The Russian fracas also had tremendous implications for the industry as a whole. Taking advantage of *artificially cheap prices for electricity* within Russia – a holdover from the central planning era – smelters boosted their production, flooding the world market with inexpensive Russian aluminium. Prices recovered only in 1994, after the world's leading aluminium producers signed a two-year deal limiting global production of the metal.

Today, the Russian aluminium industry's wild capitalist adolescence seems to be drawing to a close.

The struggle for control of the smelters is subsiding, as a few key groups have emerged as the kings of what is one of Russia's leading export industries. Most notable among them is Trans-World, the UK-based metals trader which now controls 5 per cent of the world's aluminium output thanks to its Russian interests.

After years of scrambling to divide the spoils of the Russian aluminium sector, the tendency today is towards consolidation. The country's biggest smelters, including Krasnoyarsk, Bratsk, and Irkutsk, have become the linchpins of larger financial-industrial groups which include smelters, alumina producers, banks and other related companies.

Aluminium production registered a slight rise in the first nine months of this year. *According to* Konsern Aluminiy, a Moscow group which represents and monitors the Russian aluminium industry, from January to September Russian output of primary aluminium was 2.112 m tonnes, a 3.9 per cent rise on 1995 levels.

Almost all of it was shipped beyond the perimeters of the former Soviet Union. According to State Customs Committee figures, 1.75 m tonnes were exported outside the Commonwealth of Independent States between January and August. The main importers of Russian aluminium were Japan, the United States, and European countries.

The memorandum of understanding (MOU), signed by Russia, Australia, Canada, the EU, Norway and the United States to cut aluminium production in March 1994 has run out. However, this month Russian industry leaders and western diplomats in Moscow said that they expected some sort of new agreement to be forged soon.

Ms Galina Stelmakova, deputy director of Aluminiy, a consulting company affiliated to Konsern Aluminiy, the umbrella association of the Russian aluminium industry, said that because the 1994 MOU had raised anti-trust concerns in some countries, this year the world producers might choose instead to reach an *informal understanding*.

A global agreement is still important for Russia, which continues to export the lion's share of its aluminium. But, today, the issues which most concern the Russian aluminium industry, and which are likely to determine its future, are domestic.

Russian aluminium producers, like other sectors of the economy, are facing an end to the fat days of subsidised electricity.

Instead, prices have shot up in some Russian regions to double or triple the rates in other parts of the world, pushing the costs of aluminium production above those in competitor countries such as Canada or Australia.

The big question for the Russian aluminium sector today is how it will cope with the rising costs of electricity and transport, given its crumbling infrastructure base, which is in need of multi-million dollar investment.

Ms Stelmakova said that high domestic costs had made some of Russia's smelters unprofitable to operate, but she said that the massive Siberian smelters, built near the hydro-electric power stations which dam Russia's powerful eastern rivers, were still profitable.

She also said that the Russian aluminium industry was trying to reach long-term agreements with *power plants which would* allow smelters to buy electricity more cheaply than other industrial consumers. Ms Stelmakova added that the Federal Energy Commission, which oversees electricity prices, had agreed in principle to such arrangements. Now the smelters are trying to hammer out separate deals with the power plants.

"The energy producers are natural monopolists so they are not too enthusiastic, but we are making progress," Ms Stelmakova says. "The government is also assisting us."

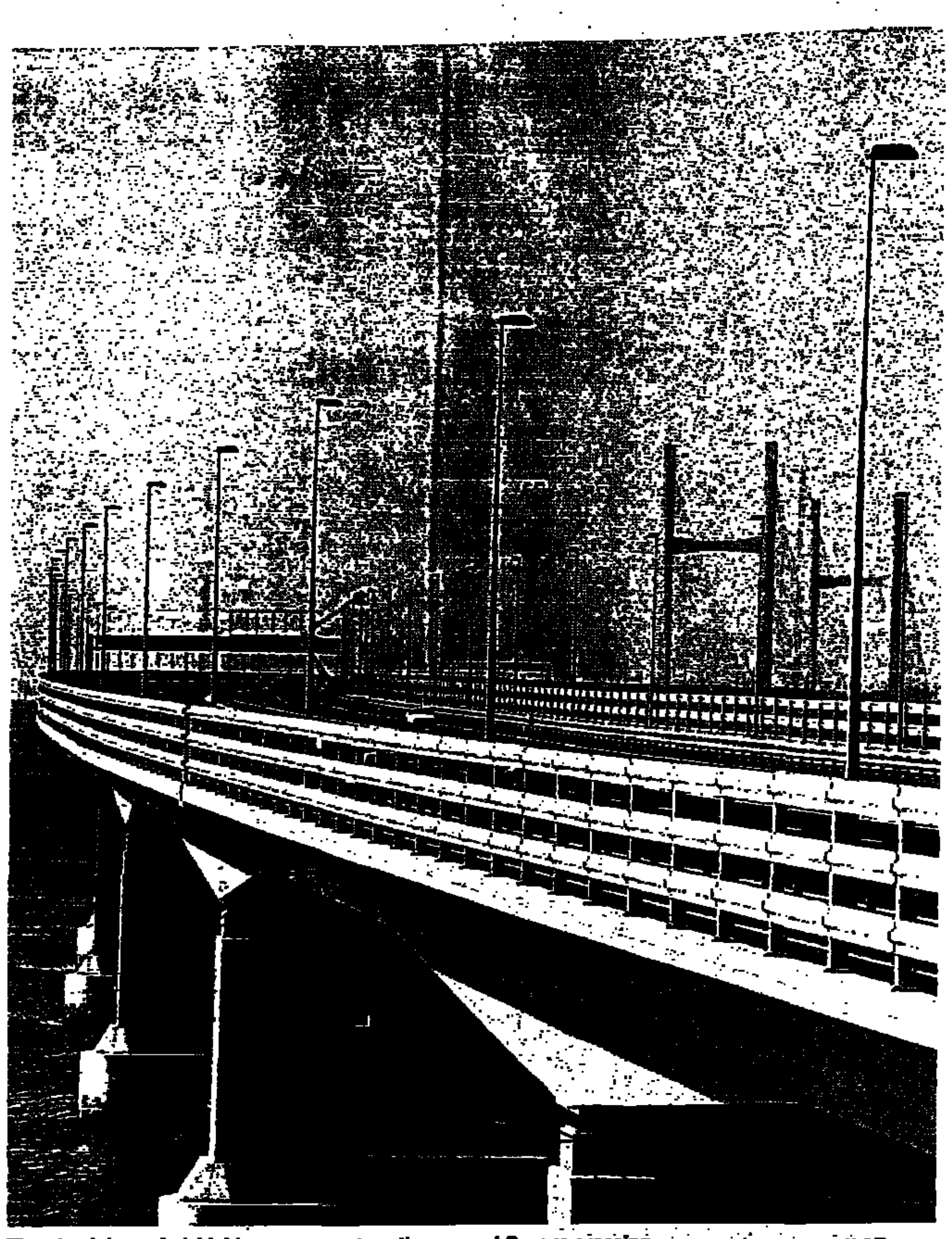
The other issue which obsesses Russia's aluminium tsars, and which they hope will be their salvation, is domestic demand. Russia's internal aluminium consumption has fallen by more than threefold since the collapse of the Soviet Union as the aluminium hungry giants of the old economy, such as the defence sector and heavy industry, have collapsed.

"Unfortunately, today the domestic market is in a very bad state. All our domestic consumers are in dire financial straits so the market is very restricted," Ms Stelmakova says.

Konsern Aluminiy says that domestic demand continued to taper off this year, relative to the already rock-bottom levels of 1995. The group did not expect *local consumption to* increase significantly over the next two years.

But, although promises of imminent economic growth flow as freely in Russia as vodka, analysts say that over the next year or two the Russian economy is bound to begin picking up from years of steady decline.

Whenever that happens aluminium, known as the middle-class metal because it is used in the goods consumed by a prosperous bourgeoisie, is likely to be one of the chief beneficiaries.



The aluminium windshield-cum-parapet on the second Severn crossing *Neil Thomas*

■ **Middle East:** by Alexandra Capelle

The region is poised for expansion

This source of non-oil income is held back by delays in project execution

A substantial expansion of the aluminium industry is under way across the Middle East as investors capitalise on low-cost production and prepare for an anticipated rise in world prices.

Cheap energy, the central *geographical position of the* region and limitless water supplies from the Gulf have fuelled an investment boom in Middle Eastern aluminium smelters and spawned a series of feasibility studies for new projects.

The region's two biggest smelters, Alba and Dubal, are completing expansion projects worth more than $600m, increasing their combined annual production to almost 870,000 tonnes by early 1997.

Although it remains doubtful whether many of the new projects will leave the drawing board soon, some analysts say if world prices rise substantially and European trade restrictions are relaxed the Middle East will become an increasingly profitable centre for aluminium production.

Political stability will remain a key consideration for new investment. The primary economic incentive remains low energy costs, *substantially lower than in* the Far East, for example. "The area is one big bubble of gas," says Mr Ian Rugeroni, the Canadian chief executive of Dubai Aluminium (Dubal).

Aluminium Bahrain, 77 per cent state-owned, has increased production from 120,000 tonnes a year in the 1970s to an estimated 460,000 tonnes this year. Production is expected to increase to 0.5m tonnes by mid-1997, following the completion of its latest expansion project, financed by a $130m syndicated loan.

Mr Karim Salimi, Alba's deputy chief executive, believes Bahrain's income from the aluminium industry will exceed that from oil by the year 2000.

At government-owned Dubal, the $500m "Falcon" expansion project has – ahead of schedule – already brought its first 80 production cells into operation. By the end of February *production is expected to* more than double to 375,000 tonnes per year.

The state-owned Aluminium Company of Egypt is also modernising and expanding in a bid to increase capacity from a current level of 60,000 tonnes per year to 240,000 tonnes by 1998 in a project costing an estimated $200m.

Besides the expansion of existing plants there is also considerable planning under way for new smelters in other Gulf countries.

In Qatar, a feasibility study for a smelter producing up to 240,000 tonnes per year is close to completion. The consortium includes Qatar General Petroleum Corp, France's Pechiney, the Kuwait-based Gulf Investment Corp and Qatar Industrial Manufacturing (Qimco). "There has been talk about a smelter for the last 20 years and many feasibility studies," says Mr Muawin Badawi, industrial and eco*nomic expert for Qimco*.

In Kuwait, the government is pressing ahead with plans to build a plant to produce 200,000 tonnes annually. Mr Nasser Naki, vice chairman of Kuwait Industries Company, says: "This is the second time we are looking at the feasibility of a smelter and we are serious about it and are proceeding."

In the Qeshm free trade area of Iran, two smelter projects are under way. Since 1992 the Al-Mahdi Aluminium Corp – 30 per cent government owned with 70 per cent private and foreign ownership – has been struggling to set up a 220,000 tonnes/year smelter. At the end of the first phase in 1999, the capacity of the plant will be 110,000 tonnes/year. The reassembly nearby of a small smelter, originally from Slovakia, owned and operated by the London-based trader Prime International, is to start in November with an annual 33,000 tonnes produc*tion next year and a target* of 120,000 tonnes per year. While the two plants on Qeshm island plan to produce for export, Iran's 120,000 tonnes/year Arak smelter in central Iran is reserved for the domestic market.

In Oman, Charus Enterprises and China National Non-Ferrous Industries Corporation (CNNC) expect to obtain approval for their smelter project in the industrial port city of Sohar from the government this month. If authorised, the Sohar Aluminium Smelter Company (Sasco) says it will start the 60 months construction process next year at an estimated cost of $2.5bn.

Saudi Arabia, together with France's Pechiney, is also looking into the possibility of entering the aluminium market by setting up a smelter. But work on a feasibility study has already lasted some eight years and a decision to go ahead has *yet to* be reached.

However, despite the large number of new projects in the pipeline, their implementation will depend on three factors: world prices, trading opportunities and political stability.

According to many analysts the most important factor is price. Mr Julian Kettle, aluminium specialist with Brook Hunt, a UK mining and metal consultant, predicts aluminium prices will cross the $1,600/tonne threshold by late 1997 making many of the planned projects economically feasible.

For the Gulf, the production cost per tonne is around $1,000-$1,200 and, with the current market price of $1,330/tonne, an investment of $1bn to set up a new smelter, excluding a power plant, is not profitable enough for governments or foreign investors.

Second, increasing political stability could also contribute to the viability of the new project by reducing the risk-premium involved in financing.

A third issue is the question of export markets. At the moment the core export market for Alba and Dubal is the Far East.

Two thirds of Dubal's total sales are exported to Japan, South Korea, Taiwan and Thailand and nearly half of Alba's production goes to the Far East. The second biggest market for the smelters is the Middle East.

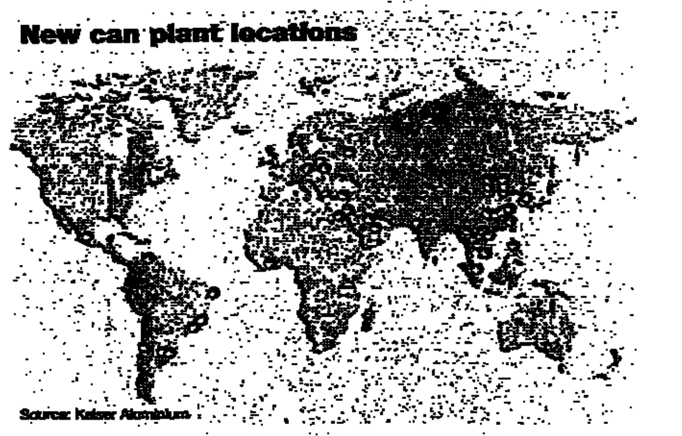
Another restriction on potential growth is the difficulty the Gulf smelters have in penetrating the European Union market because of a six per cent EU import duty levied on unwrought aluminium.

According to Mr Rugeroni: "The EU is a very large consumer of aluminium with five million tonnes [per year]. The six per cent duty for us and Bahrain makes it very difficult to participate in the European market."

Middle East producers complain that the EU grants duty free imports to a number of countries under special arrangements such as Nigeria and Libya. Mr Rugeroni says some of the countries duty-exempt, particularly in eastern Europe, are non-producers who buy the aluminium from the CIS and then resell duty-free within Europe.

Nevertheless, with rising world aluminium prices and the continuing difficulties in the oil market, many Middle Eastern governments are actively turning their attention to aluminium as a way of boosting their flagging national revenues.

New can plant locations



Source: Kaiser Aluminium

Western supply and demand balance (t '000)

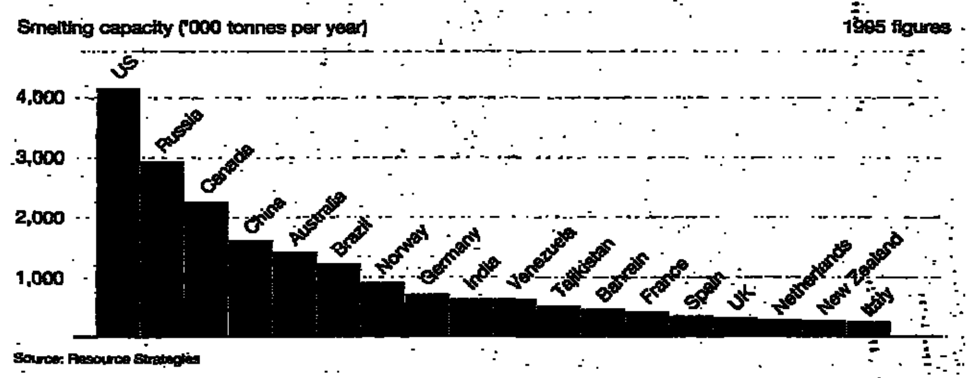
	1993	1994	1995e	1996f	1997f	1998f
Primary Production	*15,061*	*14,404*	*14,626*	*15,500*	*16,025*	*17,140*
Y/Y % change	*1.0*	*-4.4*	*1.5*	*6.0*	*3.4*	*7.0*
East Bloc: net imports	2,077	2,300	2,150	2,365	2,200	2,100
Total Supply	17,138	16,704	16,776	17,865	18,225	19,240
Consumption	15,782	17,291	17,440	17,490	18,095	18,735
Y/Y % change	*1.5*	*9.6*	*0.9*	*0.3*	*3.5*	*3.5*
Market Balance	1,356	-587	-664	375	130	505*
Total Inventories	4,493	3,733	2,576	2,750	2,900	3,100
Week's consumption	14.8	11.2	7.7	8.2	8.3	8.6
LME 3m Price ($/t)	1,161	1,503	1,833	1,550	1,575	1,500-1,600
LME 3m Price (cents/lb)	52.7	68.2	83.1	70.3	71.4	68-72.6

* *assumes Alco/Reynolds restarts*

Sources: JPAL, WBMS, Branders

Leading primary aluminium producing countries smelting capacity

Smelting capacity ('000 tonnes per year) 1995 figures



Source: Resource Strategies

■ **Cars:** by John Griffiths

Steel faces challenge

The aluminium industry must adapt its structure and systems and sell itself better

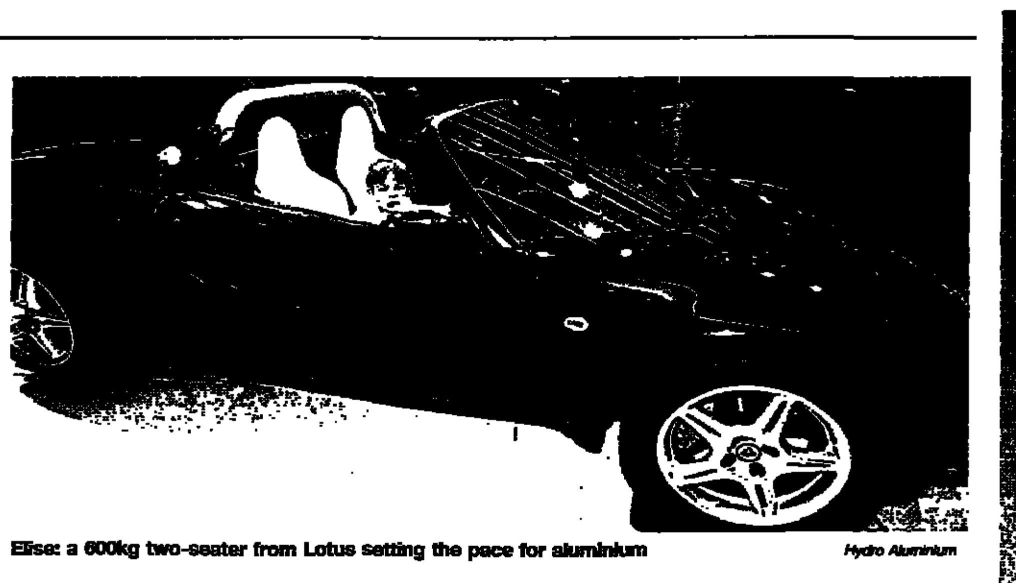
Europe's largest steel producer, British Steel, has taken a stand, for the first time, at the UK motor show currently on in Birmingham.

It is a stand in more senses than one: a centrepiece of the display will illustrate progress being made by British Steel, as part of a consortium of major steel producers from around the world, to produce a steel body for cars both more rigid, yet one-third lighter, than current models.

With it, the steel industry hopes to repel an ever more threatening invasion by aluminium producers of one of the steel industry's biggest volume and most valuable sectors.

There is good reason for the steel industry's change from many years of complacency about aluminium's potential for use in car bodies – rather than in its more traditional role as forgings or castings for engine, gearbox and suspension components – to disquiet about the metal's potential for displacing the folded and stamped sheet steel of volume-produced car bodies.

It is still the case that no car currently produced in volumes of more than a few thousand a year has its load-bearing body and outer panels made of aluminium. Cars of this type, or even with an aluminium body on a steel sub-frame, have invariably been very small volume, or very expensive or – usually – both.

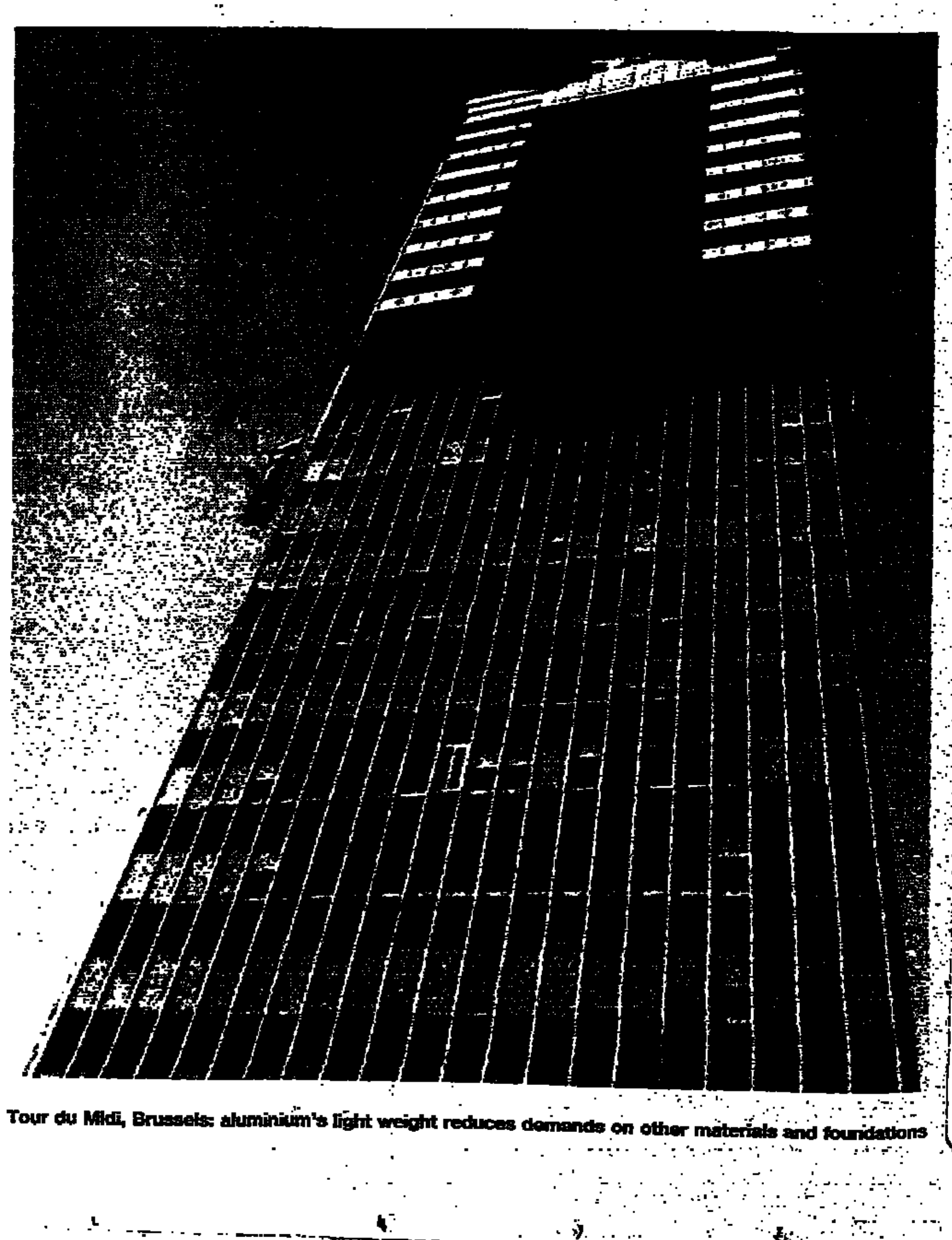


Elise: a 600kg two-seater from Lotus setting the pace for aluminium *Hydro Aluminium*

But the Audi A8 luxury car, conceived at the start as a 30,000 units-a-year vehicle, and the small Elise two-seater from Lotus, the UK sports car maker, illustrate the direction in which the wind has begun blowing.

The big Audi has an immensely strong frame of cast and extruded aluminium, clad with stamped aluminium panels. The main body is 40 per cent lighter than would be a steel equivalent, with all that entails for superior fuel economy. The Elise uses a much simpler

Continued on Page III



Tour du Midi, Brussels: aluminium's light weight reduces demands on other materials and foundations

Steel faces

Continued from Page II
assembly of bonded sheet aluminium and aluminium extrusions to create an ultra-lightweight chassis, to which are added intricately curved and lightweight plastic composite body panels – plastic moulding being a technology in which Lotus has long been deeply immersed.

The end-product is a car which weighs barely 600kg, with rapid performance from a relatively low-powered Rover engine – and a modular approach to the aluminium chassis will allow yet bigger cars to be created at relatively low additional cost.

Most importantly, companies like Volkswagen, Audi's parent and Europe's largest vehicles group, says it will be possible early next century to produce even high-volume cars like its Golf using similar materials and processes.

The confidence of the aluminium industry that it will be able to grab a substantially larger slice of business from the automotive industry – already its largest customer – is unmistakable.

Currently 25 per cent of all aluminium products are used in the automotive sector. However, "I expect the share of aluminium in the motor car to double within the next 10 years," says Mr Jochen Schirner, chairman of the German VAW aluminium group.

"In the castings sector, the aluminium engine block will take up a greater share. In the car body and chassis we will open up new applications for rolled and extruded products. For example, wheels which will be made from aluminium sheet in the future. Above all – and here I envisage the strongest growth impulse – aluminium will become the material of standard-size cars," he says.

The industry recognises, however, the determination of the steel industry to fight back through the use of improved body designs and high-strength steels; that legislative pressures will need to continue to work in the aluminium industry's favour; and that the industry itself must intensify its research and development efforts, further cut costs and improve efficiency if it is to woo vehicle makers further away from steel.

Not least, the industry recognises that it must adapt its structure and supply systems to fit vehicle makers' already well-developed global structures.

It also recognises that it needs to sell itself, and aluminium as a material, better.

The impetus for the increased use of aluminium as a car body material has been by no means confined solely to Europe.

Ford of the US has already spent more than $40m to research ways to utilise aluminium sheet in stamped body structures. Working on the basis that it is hard

> A volume car maker has to do more than just learn to use new materials

enough for a volume car maker to learn to use new materials, without simultaneously designing and developing new types of body and the production processes to make them as well, Ford has opted for building experimental versions of a production model, the Mercury Sable, in aluminium in collaboration with Alcan Aluminium of Canada. The body components are stamped and welded together using adapted current production processes for Sables made from steel.

At the Detroit motor show earlier this year, however, Ford unveiled a more adventurous prototype, the Synergy 2010, in which considerably greater use was made of extrusions and castings for easier construction and greater weight-saving effect.

The name of the show vehicle gave a clear indication of just how far into the future it is likely to be before the first Ford making substantive use of aluminium in the bodyshell is likely to appear.

■ **Cans:** by Kenneth Gooding

When a can is no longer a can

Shaped cans, environmental awareness and image should see off competition

The latest innovation in the aluminium can's battle to become the world's first choice package for fizzy drinks has recently been launched. This is a can that is shaped to look unlike a can.

Coca-Cola is testing in the US an aluminium can shaped to look as much like its traditional fluted Coke bottle as possible.

This breakthrough comes at an opportune time. Beverage cans now account for about 20 per cent of global demand for aluminium but the seemingly unstoppable progress of the aluminium can as the preferred package for carbonated beverages is slipping slightly for two reasons: an apparent tactical mistake by the US aluminium producers and increasing competition from rival materials.

In developed country markets, the PET bottle has been making big headway. This plastic material has won consumer support, particularly for large sizes. PET bottles have replaceable screw tops so the drink does not have to be consumed all at once or loose its fizz.

When PET bottles were first launched they had a big commercial disadvantage – a short shelf life. They were fine for fast-selling drinks in big supermarkets in developed countries but not such an attractive proposition when they would have to spend some time on a shelf before being sold.

However, Mr Ronald Thoma, executive vice president procurement and traffic for Crown Cork Seal Company, reported at the Financial Times's first aluminium conference in June that a new formulation allowed PET to store liquids for between nine and 12 months compared with the aluminium can's 6-12 months. Also, a great deal of new PET production capacity was being added which indicated the price of this material should be stable or lower for the next four or five years.

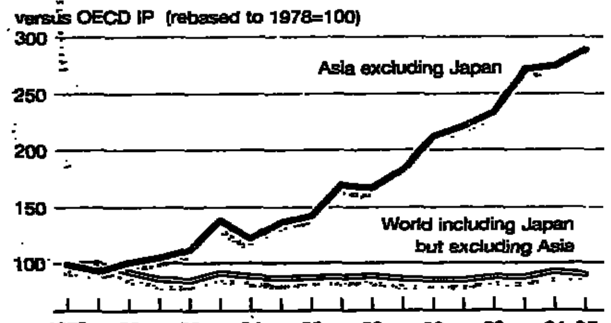
Mr Thoma also suggested that one of aluminium's best markets – for beverage cans in north America – was under threat because some metal producers were insisting on linking prices they charge can makers to volatile London Metal Exchange prices.

He said the move had stopped in its tracks growth in demand for aluminium cans in the US and caused a switch back to steel in Europe. He insisted the aluminium industry was "very short sighted" by moving to LME-based prices for can sheet because this would also damage its prospects in the rest of the world as it attempted to build up demand for aluminium cans.

US producers of aluminium can sheet moved to the new pricing policy at the begining of 1995. Their timing was not good. The new formula arrived just as the LME price of aluminium rose strongly. Consequently, the price of can sheet jumped by 50 per cent from the 1994 level. This big price rise in the US gave steel can producers a window of opportunity.

European steel producers mounted a campaign suggesting that, in future, beverage producers should protect themselves by not allowing aluminium cans to take virtually all the market, as they had in the US. In future, the steel industry argued, why not have can lines capable of filling both steel and aluminium cans? These could be easily switched from one material to the another. Some beverage producers in Europe quickly took the initiative and six lines in Italy and the UK were switched back from aluminium to steel last year.

Asian aluminium consumption



Source: Flemings Global Mining Group

The packaging picture of the 90s

	COST	QUALITY	RECYCLABILITY
Aluminium	Premium	Excellent	Good
Steel	Competitive	Excellent	Good
Glass	Premium	Excellent	Fair
PET	Very competitive	Good and getting better	Good

Source: Crown Cork Seal

Foil trophy winners: coming in all shapes and sizes and to suit every taste

Mr Bernard Legrand, head of Pechiney's aluminium division and present chairman of the European Aluminium Association, insists this is by no means a disaster. Between 1985 and 1995 aluminium's share of the beverage can market in Europe has risen from 37 per cent to 55 per cent, he points out. Annual growth of aluminium beverage can sales has been "a spectacular" 14.5 per cent over that decade.

"Although a few can lines were converted to tin plate at the end of 1995 and early 1996, aluminium still had a dominant market share in the first part of this year and I am confident that aluminium will remain the preferred material of can makers," he adds.

Not the least among aluminium's advantages, he suggests, is that its intrinsic high value gives a strong incentive for recycling. Last year about 35 per cent of all aluminium beverage cans in Europe were recycled and this is expected to rise to 50 per cent in the year 2000.

In the two other big markets, the US and Japan, recycling rates last year were 62.2 per cent and 65.7 per cent respectively.

Apart from giving the industry the right kind of "green" image, recycling also provides it with cheaper metal. It saves as much as 95 per cent of the energy required to produce new aluminium.

While demand for aluminium beverage cans might be at a peak in North America, Pechiney is convinced the industry can count on big growth in demand from the sector in many other parts of the world.

It sees unit sales of these containers increasing by an average of 2.5 per cent in the US between 1994 and 1997 and a slowing in growth to 3.2 per cent a year in Europe. But in Asia and Latin America, growth could be very much stronger.

Pechiney suggests, for example, that in Brazil unit sales of aluminium beverage cans will jump from 1.6bn in 1993 to 12.5bn by the year 2000, accompanying projected soft drinks and beer market growth of 5.5 per cent a year.

Aluminium cans might be given a new lease of life in the US if the new, shaped cans prove successful. "Soft drinks and beer producers want to be able to personalise their containers and research carried out by our industry has shown the wall of an aluminium beverage can has enough formability to be shaped," says Mr Legrand. "This will certainly strengthen the position of the aluminium can against other, competing, beverage containers."

American National Can, a Pechiney subsidiary has developed the shaped can for Coca-Cola. Now it is up to the beer and soft drinks industries to find out whether the concept will catch on.

Not the least of the potential advantages of the shaped can is that in the US, where nearly every beverage can is made from aluminium, the can is suffering an image problem among younger people.

As Mr Stephen Bettcher, vice president for can stock sales and marketing at Kaiser Aluminium, warned recently: "The reality is that to today's youngster the can is what dad drank from while he stood in his T-shirt and watered the driveway – not the most positive image to a marketer."

■ **Executive views:** by Kenneth Gooding

A sense of optimism

As the metal's use increases, the main challenge will be to prove its 'greenness'

The optimism senior executives feel about the aluminium industry's future are well illustrated by comments from Mr Bernard Legrand, head of the aluminium division at Pechiney of France, Europe's biggest producer, and Mr Jochen Schirner, chairman of VAW Aluminium of Germany.

Looking at the immediate future, Mr Legrand says Western world demand for aluminium is likely to pick up gradually during the remainder of this year after a very poor start to 1996. This should leave the market roughly in balance, even after an expected 5 per cent increase in production in the west and with imports from eastern Europe remaining at about 2m tonnes.

He sees a similar, balanced situation in 1997, but with supply tightening towards the year-end. Nevertheless, with about 1m tonnes of global aluminium smelting capacity still shut down, any tightness is unlikely to push prices up sharply. He insists that in present market conditions he cannot recommend that Pechiney reactivate any of the capacity that it has on stand by.

Looking ahead, VAW's Mr Schirner suggests: "Prospects for our industry are good. Potential demand is high from new applications and new countries. Supply is secure, both raw materials and secondary metals. The price of aluminium will in real terms fall further. We are taking the offensive with regard to ecological problems. And we have restructured our companies to match future challenges."

One of the industry's growth markets is the use of aluminium by car makers anxious to reduce the weight of vehicles so as to cut pollution and fuel consumption. Mr Legrand points out that new types of aluminium alloys and the high versatility of aluminium allow sheet, extrusions and castings to be combined so that car makers can now save 40 to 50 per cent of a vehicle's body weight.

Already the amount of aluminium used in an average car is about 65kg. "Some vehicles use more," Mr Legrand points out – citing the Renault Safrane with 136kg, the Volvo 960 with 140kg, and even more in the case of the "all aluminium" Audi A8.

"In 1994 the motor industry in Europe consumed about 65,000 tonnes of aluminium in extruded and rolled products and 1m tonnes in castings. This was 18 per cent of the total aluminium consumption in Europe. It is expected that the use in the average car will rise to between 130kg and 150kg by the year 2005. Assuming that car production figures remain constant, this should result in an estimated aluminium consumption of 2m tonnes."

Mr Schirner is equally enthusiastic. "I expect the share of aluminium in the car to double within the next ten years. In the castings sector the aluminium engine block will take up a greater share. In the car body and chassis we will open up new applications for rolled and extruded products, for example, wheels which will be made from aluminium sheet in future. Above all – and here I envisage the strongest growth – aluminium will become the material from which standard-sized cars are made."

Mr Legrand points out that aluminium is also making headway in the public transport sector: in aeroplanes, ships, ferries, buses, trams and all kinds of trains.

"Take the example of the high speed ferry," he says. "Aluminium has for a long time been used in shipbuilding because of its high corrosion resistance in aquatic conditions, but steel used to be the dominant material because the economics were more favourable in traditional shipbuilding. The progress of high speed ferries, some with lengths above 100 metres, able to carry hundreds of passengers and cars at speeds above 75km an hour, gives a new outlet for innovative aluminium products.

Making headway: a high speed ferry of the Stena Line *Hoogovens*

"At present there are several aluminium high speed ferries under construction in various European ship yards. Recently fast ferries were deployed on the Irish sea and between Sweden and Denmark. European aluminium producers are also supplying material to Australian and Canadian shipyards which are engaged in the same type of developments."

In order to be sure of winning a share of these new markets, the industry needs to keep its costs under control. Mr Schirner is sure this will be done. He points to the liberalisation of energy markets that should cut the cost of this important element in aluminium production. "Smelters in the US have recently experienced this. In Europe we expect electricity price reductions in the next few years."

Mr Schirner says the industry still has to improve productivity by modernising old plants. The size of new smelters will increase and the competitive pressure will lead to smaller plants being either closed down or expanded. He says confidently: "The battle against cost inflation will be successful. The price of aluminium in real terms will fall further."

As a German, Mr Schirner is more aware than most industry executives that, in spite of its efforts to promote a "green" image, aluminium's environmental record is constantly criticised. The Worldwatch Institute, for example, describes aluminium production as "one of man's most environmentally harmful activities."

Environmentalists complain that bauxite mining destroys the landscape, aluminium production uses huge amounts of energy and smelters pollute, as do aluminium cans, foil and other packaging.

Mr Schirner defends the industry's record. Only about 20 sq kms of new bauxite mining areas are opened up each year and only 10 per cent of this is in rain forest. "All areas used in this way are recultivated. Usually all traces of mining disappear within ten years after mining ceases. Areas containing protected flora and fauna are not mined."

As for the use of energy, not only has the industry employed technology to cut its use dramatically, that energy is not lost. "It is literally stored in the metal. This stands us in good stead during recycling."

Mr Schirner suggests: "We have made great strides in environmental protection and ecology. Where we are still lacking is in the area of communication. When we make an improvement in this area, aluminium will be more widely regarded as a 'green' metal."

■ **Capacity:** by Kenneth Gooding

Too little, too late

Producers tend to play down analysts' forecasts of supply and shortages

No fewer than 19 proposed new aluminium smelter projects have been announced in the past year, a sure sign of the industry's confidence in its future.

Nevertheless, some analysts suggest that the industry has left it too late to bring in substantial new capacity and that aluminium will be in short supply before the end of this century.

They say this will happen even though there is still about 1m tonnes of annual capacity – shut down by western producers to make room for the Russian metal that poured into their markets after the collapse of the Soviet Union – to be brought back into production.

It was the savage blow dealt to the western industry and to aluminium prices by the explosion of Russian aluminium exports that caused virtually all new smelter projects to be shelved.

The only one to go ahead in the past four years was Alusaf of South Africa's Hillside smelter, a monster with annual capacity of 466,000 tonnes. Yet some analysts calculate the world needs a new smelter of Hillside's size every year to keep pace with growing demand.

"There are plenty of projects waiting in the wings. But the final commitment to go ahead is not evident," points out Mr Kevin Crisp, analyst at J.P. Morgan, the financial services group. He suggests the industry's reluctance to commit itself is understandable.

A Hillside-type project would require capital investment of $1bn. A producer would want to be sure of a sustainable aluminium price of about $1,650 a tonne before going ahead.

After the go-ahead is given, it takes three years to build a new smelter and another 12 months to crank it up to full capacity working.

Mr Tony Bird of the Anthony Bird Associates consultancy group complains: "It is remarkable that for a dozen years now western aluminium producers have persistently under-provided for demand in the rate at which they have constructed new smelting capacity."

He says that, when account is taken of the 35 smelters that have closed permanently since 1982 – representing about 20 per cent of annual western capacity at that date – producers have been building new capacity at an annual growth rate of only 0.5 per cent.

"It is now very unlikely that this problem can be resolved without an unpleasant spike in metal prices in 1998, which will both stimulate supply and also choke off demand," he suggests.

Mr Stewart Spector, another aluminium industry consultant, also suggests that growth in sales of the metal in the next few years will be held back by shortages of production capacity.

While he looks for aluminium shipments next year to be 4 per cent ahead of this year's total, he expects growth to drop below 1 per cent in 1998 and increase by no more than between 2.5 per cent and 3 per cent in 1999 and 2000 – not because of any lack of demand but because of capacity shortages.

Mr Spector also suggests that the restart of those western smelters that at present are on stand-by, might be held back by a shortage of calcined petroleum coke, an essential raw material without which smelters cannot operate.

Aluminium producers, however, tend to dismiss the analysts' warnings. Among the sceptics is Mr Jacques Bougie, president of Alcan of Canada. He insists: "The market has a wonderful way of adjusting itself." Mr Bougie admits, however, that all the 1m tonnes of capacity on stand-by will be required and the 2m tonnes of Russian metal being exported every year to the west "is no longer a nuisance but is now an essential part of western supply."

Judging the industry's capacity requirements today is made doubly difficult because technology offers alternatives to new smelters. For example, Mr David Moison, analyst at the Resource Strategies consultancy, suggests that between 25 per cent and 50 per cent of expected extra demand for aluminium in the next five to ten years could be met by enhancing existing production facilities. "This is a very attractive route with very low capital requirements."

Also, several aluminium smelters are planning to add new production lines which would be more expensive than upgrading existing "pots" (production cells) but cheaper than building a new smelter.

For example, Comalco's Tiwai Point smelter in New Zealand is being upgraded by improving the energy efficiency of its "pots" and adding some new ones. This will lift its annual capacity from 270,000 tonnes to 318,000 tonnes by the beginning of next year.

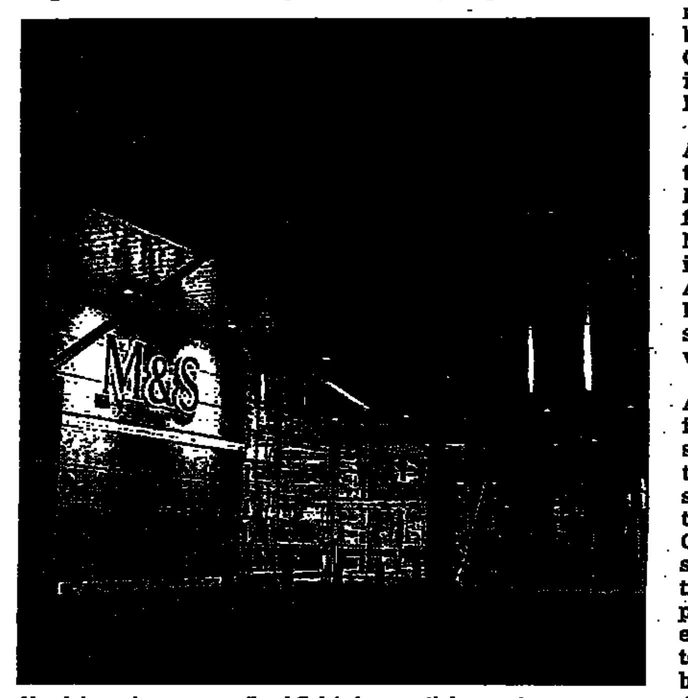
Mr George Haymaker, chairman of Kaiser Aluminum, the US group, reported at the first Financial Times aluminium conference recently that his company was contributing to increasing capacity at existing plants with a system in which minicomputers helped operate potlines at smelters.

Already this system, Celtrol 11, had been installed in 14 smelters controlling nearly 10 per cent of world production capacity. Kaiser's retrofit technology would also be used in a joint venture recently signed with China National Nonferrous Metals Industry Corporation, "representing the first significant privatisation of the Chinese aluminium smelting industry."

Another example of how money can be saved is the Qeshm aluminium smelter in Iran, owned and operated by Prime International, a London-based trader in Iranian non-ferrous metals. Prime bought a pot line, using old fashioned Söderberg technology, from Slovakia where ZSNP had closed its old plant at Ziar nad Hronom. The line is being rebuilt on a site in the Qeshm free trade area on an island near the straits of Hormuz.

Iran is also building the Al-Mahdi smelter, a 220,000-tonnes-a-year plant, at Bandar Abbas about 7km from Qeshm. Details of other Middle East projects, including capacity increases by Aluminium Bahrain and Dubai Aluminium, are in a separate article in this survey.

Outside the Middle East, Alusuisse-Lonza is to expand its 100,000 tonnes a year smelter in Iceland to 162,000 tonnes by late 1997. Construction of a new 217,000 tonnes a year potline at Comalco's Boyne Island smelter in Queensland, Australia, is scheduled for completion in 1998. A more modest increase, by 12,000 tonnes to 197,000 tonnes, is planned by Hydro Aluminium at its Ardal smelter in Norway.



Aluminium gives an anodised finish for prestigious entrances

PROFILE Pechiney

The red and the black

These are testing times for Europe's largest primary aluminium producer.

Less than 12 months after its privatisation, Pechiney of France is set to fall back into the red this year in sharp contrast with the impressive recovery it managed in 1995.

But the loss will have relatively little to do with the recent decline in aluminium prices on the LME. Its chief underlying cause will be provisions for a sweeping programme of cost cuts aimed at putting the company's earning capacity on a footing with that of its strongest competitors.

Unveiling the group's half-yearly earnings last month, Mr Jean-Pierre Rodier, chairman, said the programme – known as project Challenge – would result in about FFr2bn in restructuring costs, "a part" of which would be provisioned in 1996. He said its aim was to cut costs by FFr4bn, or 20 per cent of overall costs, excluding raw materials, by the end of 1998.

According to Ms Melanie Hucherard, an analyst with Goldman Sachs in London, Pechiney's performance is "significantly behind" its main north American rivals on an operating margin basis. In 1995, she says, these competitors achieved margins "in the low teens," against just over 5 per cent for Pechiney. She is confident the goals of the Challenge project, including investments of FFr3.5bn to modernise production, will be achieved; and this would allow the group to catch up with the north American producers, assuming they make efficiency improvements of their own of no more than an average of FFr500m a year.

The Challenge proposals have been a source of some controversy in France, however, because of their expected impact on jobs at a time when the unemployment rate is at a record 12.6 per cent.

In last month's presentation, Mr Rodier indicated the programme would lead to a reduction of between 4,000 and 5,000 in the company's 37,000 worldwide staff and a 12 per cent cut in its wage bill. France, where nearly half of the company's employees are based, is to bear its share, with salary costs set to come down by 16 per cent.

Earlier this month, 1,000 or more Pechiney employees from all over France took part in a noisy demonstration at the company's headquarters in La Défense, the futuristic commercial district near Paris. In scenes that are becoming familiar across France as broad swaths of commerce and industry restructure, hundreds of human outlines were spray-painted on the ground and "Long live Riouperoux" was daubed on the company's front door, in reference to the solitary French plant expected to close as a result of the cuts.

In 1995, Pechiney – which can trace its origins back some 140 years – produced more than 890,000 tonnes of primary aluminium from nine smelters in France, Greece, the Netherlands, Cameroon, Australia and Canada. The aluminium sector – which also takes in the group's mill products and extrusions, building products and distribution units – accounted for almost exactly one-third of consolidated net sales.

Thanks partly to the acquisition in 1988 of American National Can, the company has also developed into one of the world's largest packaging manufacturers, with products ranging from beverage cans to tubes and flexible packaging. In 1995, beverage cans accounted for 56.1 per cent of packaging sector sales. These, in turn, represented just over one-third of group sales. The balance was made up by the company's international trade operations and "related industrial activities", principally ferro-alloys.

In the first half of 1996, all four business units suffered a decline in operating profits, with the downturn particularly pronounced in the international trade division. Operating profits from both packaging and aluminium were, however, marginally better than figures achieved in the second half of 1995 at FFr651m and FFr634m respectively. First-half net profits for the group were down nearly 30 per cent at FFr426m, compared with FFr608m in 1995.

Earlier this month, Mr Rodier told the French daily *Le Figaro* that, barring a "very strong" recovery in November and December, the group would not "reach a net result of the same level as that of 1995, when we made a net profit on ordinary activities of FFr732m excluding exceptional items." He said the level of activity in the second half was "not significantly different" from the modest level experienced in 1995.

David Owen

SLOVAKIA

Nation in need of a political truce

Europe's youngest state faces a long list of problems at home and abroad, aggravated by a power struggle between its president and prime minister, write Vincent Boland and Kevin Done

Vladimír Mečiar, Slovakia's prime minister, was a notable absentee at the reception held by President Michal Kováč on October 4 to inaugurate the new presidential palace in central Bratislava.

His absence surprised few. Until he was forced by the constitution to meet Mr Kováč in August to discuss changes to his cabinet, the two former allies had not met officially for 14 months.

For much of the four years since the country achieved statehood its transition to democracy has been blighted by a power struggle between its head of government and its head of state. Slovak politics is served raw.

This domestic tension has damaged Slovakia's image abroad. Its economic achievements are among the best of any of the transition countries of central and eastern Europe, but this performance has been overshadowed by the doubts expressed in western capitals about its adherence to democratic, free market values.

Already it is threatened with exclusion from the first group of central European countries to be considered for membership of Nato and of the European Union, and yet there is little sign of the domestic political conflict abating.

Mr Kováč was instrumental in the removal of Mr Mečiar's first post-independence government in March 1994, since when the prime minister has accused him of siding with the opposition. Last year, the government and institutions loyal to Mr Mečiar voted no confidence in the president, but Mr Mečiar failed to get parliament to do so too. Since then, attacks on Mr Kováč have become stronger.

Mr Mečiar and his allies accuse the president of misusing the non-political nature of his office and have alleged links with criminal circles. The prime minister claims that because Mr Kováč is the first president of the new state – Slovakia gained its independence at the beginning of 1993 after the "velvet divorce" from the Czech Republic – he has been able to act in a way that would not be tolerated in other democracies.

The opposition parties use the president "as a flag", says Mr Mečiar, and use him to "carry out jobs they would not like to do themselves".

The president strongly rejects such charges, and says that the conflict arises from differences over "the democratic nature of governance" and "the question of ethics in politics".

He believes that the opposition has been excluded from any effective means of supervising government activity, that the public media – radio and television – are in the hands of the the government and the ruling party, and that the independence of the public prosecutors has been compromised.

"We have a very peculiar prime minister. It must be understood that many of the problems we have today result from his attitudes and opinions," the president said in a recent interview.

The president has started legal proceedings for libel against Mr Mečiar, but the prime minister dismisses the suit as unfounded.

"The bodies involved in the proceedings have already proved that all my statements concerning the president are true," he said in an interview with the Financial Times. "After something like that, every single decent politician would simply resign."

Mr Mečiar's campaign to remove President Kováč was one of the key factors that prompted both the European Union and the US to issue diplomatic notes to the Slovak government a year ago expressing "concern about possible actions against the president of the republic which could negatively affect the development of democracy in the Slovak Republic".

Western diplomats maintain that little has changed since then, and they remain concerned about the power struggle and the poisonous atmosphere in which it envelops normal political discourse. "You cannot have a dispute that has reached the depths this one has. This is a serious matter," one diplomat said.

Other developments have also caused concern. This year Mr Mečiar has pushed through laws, some under pressure from the extreme right wing of his government, that restrict freedom of speech, the autonomy of universities, and the right to speak minority languages, and which create difficulties for non-governmental organisations to operate.

Opposition parties have been frozen out of the running of parliamentary committees. The mostly anti-government press has been harassed. "These are things that are not consistent with the way western countries are run," the diplomat added.

So far, political turmoil has not affected Slovakia's buoyant economy. Last year, it recorded growth of 7.4 per cent, the second highest among transition economies after Albania. This year, growth is expected to reach at least 6 per cent. Inflation, at an annual 5.2 per cent in September, is several points lower than in the neighbouring Czech Republic. The Organisation for Economic Co-operation and Development, which Slovakia hopes to join next year, predicts that steady growth should continue into 1997.

Privatisation, though controversial, has speeded up this year, and Slovakia's main industries, including steel and petrochemicals, are increasingly competitive. Unemployment has fallen from 15 per cent to 12.5 per cent in the past two years. These positive developments have won Slovakia investment grade ratings from both Standard & Poor's and IBCA (BBB–) and Moody's (Baa 3), easing its path to the international capital markets. It is still rated well below other countries from the region, such as Slovenia and the Czech Republic, where the political risk is deemed to be much lower.

There has been a sharp deterioration in the current account, which has been pushed into deficit through high imports of consumer and investment goods after a surplus of nearly $650m last year. There are signs that exports, which fuelled the boom in 1995, may have peaked.

There is also little foreign investment. Bankers say this is due as much to perceptions of instability as to an official policy of favouring domestic investors in privatisation. They say the government needs to do more to attract foreign investors into the country, and they argue that its attitude towards state sell-offs needs to be adapted to encourage foreign buyers to participate.

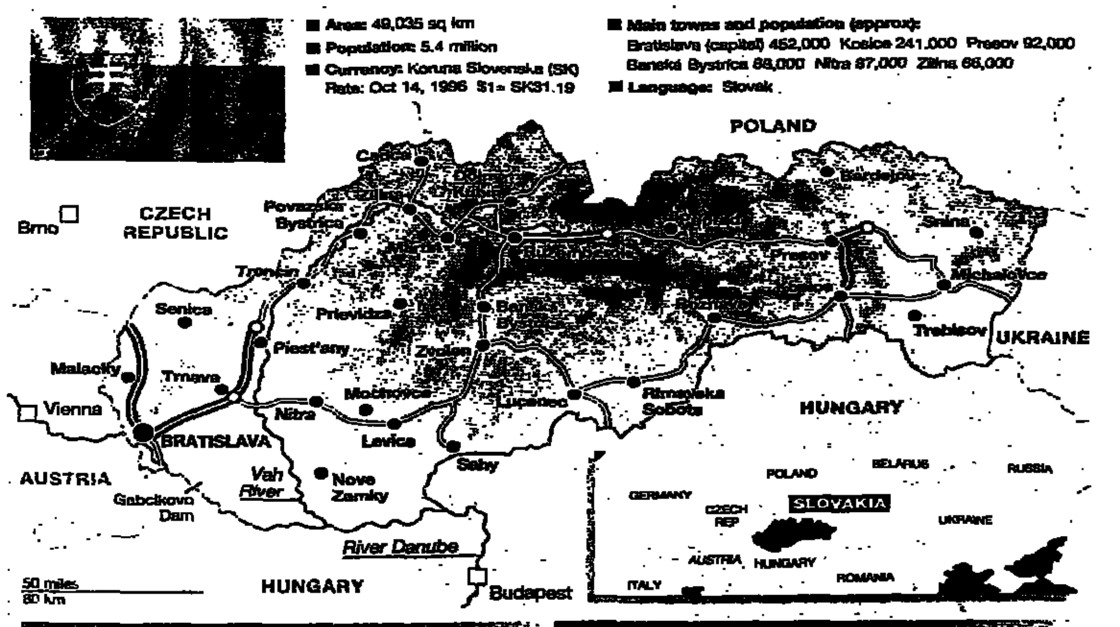
It remains to be seen what effect the recent cabinet changes will have on government policy. Apart from Mr Hamžík, a well-regarded professional diplomat, Mr Mečiar also replaced his economy and interior ministers. The new economy minister, Karol Cesnek, is a former chief executive of the state electricity company, while the new interior minister, Gustav Krajči, is a senior member of the prime minister's Movement for a Democratic Slovakia, with no government experience.

Of the three, Mr Hamžík faces the toughest task – of ending Slovakia's isolation from the drive towards European integration. Mr Mečiar has not met several key European leaders, and the minister says his first task is to secure a meeting with Chancellor Helmut Kohl, of Germany. Mr Kohl has already voiced his concern at internal instability in Slovakia, suggesting it was being left out of the EU's expansion plans.

Mr Hamžík insists the country is still on track, pointing out that the accession timetable has not yet been fixed. Membership of both the EU and Nato remain key foreign policy goals, although the stance on Nato membership is somewhat ambiguous. Slovakia views Russia as less of a threat than do Poland or the Czech Republic, and Mr Mečiar says that while he still expects an invitation to join, the issue will be put to a referendum if one is forthcoming. Opinion polls suggest that there is not a majority at present in favour of joining.

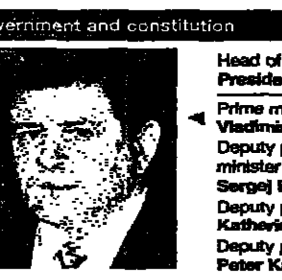
However, many observers say a less confrontational domestic policy is essential before the country can make a stronger case for inclusion in the race to integrate with the west. Economically and culturally, the case for Slovakia – Europe's youngest state – to be considered for membership of western institutions is strong. But as Mr Mečiar acknowledges, "we admit that our political culture is at a lower standard".

If a truce could be declared in the battle between president and prime minister and the key issues addressed, the standard would quickly rise.



- **Area:** 49,035 sq km
- **Population:** 5.4 million
- **Currency:** Koruna Slovenska (SK) Rate: Oct 14, 1996 $1= SK31.19
- **Main towns and population (approx):** Bratislava (capital) 452,000 Kosice 241,000 Presov 92,000 Banská Bystrica 88,000 Nitra 87,000 Zilina 86,000
- **Language:** Slovak

Government and constitution



Head of state:
President Michal Kovac

Prime minister:
Vladimir Meciar (HZDS)
Deputy prime minister and minister of finance:
Sergej Kozlik (HZDS)
Deputy prime minister:
Katherina Tothova (HZDS)
Deputy prime minister:
Peter Kalman (ZRS)

National legislature: Slovak National Council of 150 members, elected in October 1994.

Electoral system: universal direct suffrage for party lists: proportional representation subject to 5% threshold.

Next elections due: September 1998

National government: coalition government headed by Vladimir Meciar was sworn in on December 13, 1994.

Main political parties: Movement for a Democratic Slovakia (HZDS)*; Slovak National Party (SNS)*; Association of Slovak Workers (ZRS)*; Party of the Democratic Left (SDL); Christian Democratic Movement (KDH); Alliance of Democratic Slovakia (ADS); Democratic Union of Slovakia (DE); New Democratic Party-New Alternative (NDS-NA); Hungarian Christian Democratic Movement (MKDH); Co-Existence (ES)

* Members of the ruling coalition

Economic summary

	1995	1996 (est)
Total GDP, real terms (SK billion)	417	438
Real GDP (annual % change)	7.4	6.0
GDP per head ($)	3,244	3,624
Inflation (annual % change in CPI)*	7.2	6.2
Unemployment (% of labour force)	13.1	11.5
Foreign exchange reserves ($m)	3,364	3,500
Foreign debt ($m)	5,765	7,043
Debt service (% of exports)	8.4	10.9
Current account balance ($m)	646	-982
Merchandise exports ($m)	8,529	8,652
Merchandise imports ($m)	-8,505	-10,015
Merchandise trade balance ($m)	24	-1,364
Main trading partners (1995)**	Exports	Imports
EU	37.4	34.7
CEFTA	44.3	32.9
(of which Czech Republic)	35.2	27.5
Former Soviet Union	7.1	19.5

* end period ** share of total trade

Sources: EIU, Nomura, OECD

IN THIS SURVEY

Production Editor:
Ian MacDonald

Graphics:
Bob Hutchison

■ **Foreign policy** • by Vincent Boland

EU and Nato are still elusive ambitions

Bratislava has much to do at home before being accepted overseas

As the debate on the possible expansion of the European Union and Nato grinds on, Slovakia appears to be slipping behind its neighbours in the race to join. Entry to both remains the over-riding foreign policy goal, but western governments are not convinced that the country is ready to become a member of either.

In the two years since he became prime minister, Vladimir Mečiar has become isolated on the European stage. His pursuit of authoritarian domestic policies, and in particular his attempts to unseat President Michal Kováč, have attracted strong criticism abroad, which he accuses Mr Kováč of instigating. He has not met key western leaders at an official level, feeding his conviction that he is being snubbed by a hostile west.

Diplomats insist there is no deliberate snub, and argue that Mr Mečiar will be accepted when his government shows more understanding of democratic niceties. It is not Brussels and Washington that are hindering Slovakia's integration with the west, they say. The fault lies in Bratislava.

No single incident has done more to tarnish his government's reputation abroad than its response to the kidnapping last year of the president's son. The abduction has not been properly investigated, the secret service and the interior ministry have been implicated in an alleged cover-up, and Mr Mečiar has done little to distance the government from the scandal.

Developments flowing from the incident led late last year to a series of sharp rebukes from the US, the EU and the European parliament. The government finds itself constantly on the defensive, and notably lacks a friendly EU "sponsor". Pavol Hamžík, appointed foreign minister in August, faces a big challenge in changing western perceptions of Slovakia, and many observers feel he will not be able to do so in time to secure the country's place at the forefront of integration.

Mr Hamžík, who was ambassador to Bonn until his appointment, is immediately handicapped by the foreign ministry's lack of clout within the government. Mr Mečiar dictates foreign policy, but that is hostage to his domestic policies. Only a more conciliatory approach at home will win new friends abroad, observers say.

Mr Hamžík admits that his first task is to secure a formal meeting between Mr Mečiar and Germany's Chancellor Helmut Kohl, which would go a long way towards ending Slovakia's isolation. "There have not been heads-of-government contacts as often as I think are necessary," the foreign minister says, adding that a Mečiar-Kohl meeting could be forthcoming by the end of the year.

> London, Bonn and Rome are among cities waiting for new Slovak ambassadors

He will also have to move quickly to fill some key diplomatic posts abroad which have been vacant for some time. Slovakia currently has no ambassador in London, Rome or the United Nations, and his former post in Bonn will also have to be filled. Diplomatic appointments have become hostage to the row between Mr Mečiar and President Kováč, but observers say these posts must be filled if Slovakia is to help itself to overcome its self-imposed isolation.

Mr Hamžík says western governments overreact to internal developments and should offer Slovakia "more understanding and co-operation" in its turbulent transition to democracy. He also insists the country remains on track to join Nato and the EU, pointing out that the timetables are still fluid. He describes accession to the EU as "the only real, reasonable choice for Slovakia".

The price of greater understanding and co-operation, however, is evidence that the government is willing to drop its confrontational policies, offer some say in parliament to opposition parties, and signal a truce with Mr Kováč, who intends to remain in office until his term expires early in 1998.

"You cannot sell yourself to the west unless you make real changes in the reality at home," says Eduard Kukan, an opposition MP and former foreign minister. Mr Mečiar has given no signals so far that he is willing to make those changes, and appears to be adapting his approach to membership of Nato, and to a lesser extent the EU, to suit the domestic agenda.

The prime minister appears ambivalent about Slovakia's accession to Nato. He acknowledges the arguments against its early membership, admitting that "our political culture is at a lower standard" than in other prospective members, but still expects it will be asked. "We expect this invitation [to join] will be extended, but if it is not what can we do?" he says. "We have done everything we should have done" to prepare for joining the alliance.

Many observers say Slovakia views Russian objections to Nato as less of a threat than do the Czechs or Poles. The country remains quite closely tied to Russia economically, relying entirely on it for oil and gas supplies, and Mr Mečiar, who speaks Russian, has far closer ties with Moscow than with any western country. He has spoken occasionally of his country being a bridge between east and west in Europe.

He is more cautious on Slovakia's accession to the EU, describing membership as "the core of our interests". Economically, politically and psychologically, joining the Union is far more important to the Slovaks than joining Nato, and other things being equal, a place among the front group of aspiring members is a status the Slovak people have a right to demand.

There are some signs that relations between Bratislava and Brussels are improving. Mr Georgios Zavvos, head of the EU delegation to Slovakia, says both sides "have developed a *modus vivendi* with its ups and downs", a marked improvement on the mutual hostility of a year ago, but adds that the government still has much to do to improve the environment in which domestic legislation is passed.

And Slovakia also has to rebuild many bridges with individual EU members. If Mr Mečiar secures a meeting with Chancellor Kohl this year it will be a good start. The real test of his chances of succeeding will lie in whether Mr Kohl agrees to see him.

Vladimir Mečiar: occasionally speaks of his country as being a bridge between east and west in Europe

■ **Relations with Hungary** • by Vincent Boland

A question of autonomy

Mistrust exists between nationalists and ethnic Hungarians

During the Austro-Hungarian empire, Slovakia was "upper Hungary". Bratislava, known as Pozsony to the Hungarians, was where Hungarian monarchs were crowned while the Turks occupied Budapest under the Ottomans, and it had a large Hungarian community until the first world war.

Today, about 567,000 ethnic Hungarians live in southern Slovakia, on the fertile plains that sweep down to the Danube and in the hills eastward to Kosice and the border with Ukraine. Their first language is Hungarian, but most consider themselves Slovak and live peacefully beside their Slovak-speaking neighbours.

Apocalyptic Hungarian accounts suggest ethnic Hungarian Slovaks are second-class citizens in Slovakia. That is far from the case. They enjoy a high degree of control over their own affairs while still being counted as Slovaks. "There is no major violation of Hungarian minority rights, and Hungarians are very well represented in Slovak politics," says a senior European Union diplomat.

There is, however, a high degree of mutual distrust between nationalists, who dominate parliament, and ethnic Hungarians, with its roots in the historical and colonial relationship between Slovaks and Hungarians.

At issue is whether ethnic Hungarian Slovaks are entitled under international civil and human rights accords to autonomy, and if they are, what sort of autonomy it should be. Leaders of the Hungarian minority, supported by Budapest, want "collective rights" and to be regarded as a separate community. The Slovak government, supported by the Helsinki accords, among others, offers "individual rights" to each citizen regardless of ethnic background.

It is ironic, but perhaps not surprising, that anti-Hungarian feeling is strongest in those parts of Slovakia where few Hungarians live. Its main proponent is Jan Slota, leader of the Slovak National Party, a far-right partner in the ruling coalition. His power base is the northern town of Zilina, in the part of Slovakia furthest from the Hungarian-speaking district.

A bilateral treaty signed in March 1995 addresses the minority issue by referring to Article 1201 of the Helsinki Human Rights Accords, which defines collective and individual rights. But this is interpreted differently by both sides and is often flouted.

In return for supporting the treaty, Mr Slota forced the government to pass a law that severely curtails freedom of speech and assembly. A separate law making Slovak the official language and restricting the right to speak others was also passed. The government still has to make good on a promise to restore the status of minority languages.

Provocations like these, and active support by nationalists in Budapest for autonomy, keep the minority question alive. Pavol Hamzik, the Slovak foreign minister, says the issue "dominates the bilateral relationship too much. We must work to put it in the background". But he adds: "Nobody mentions the status of the Slovak minority in Hungary, who are in a very bad situation."

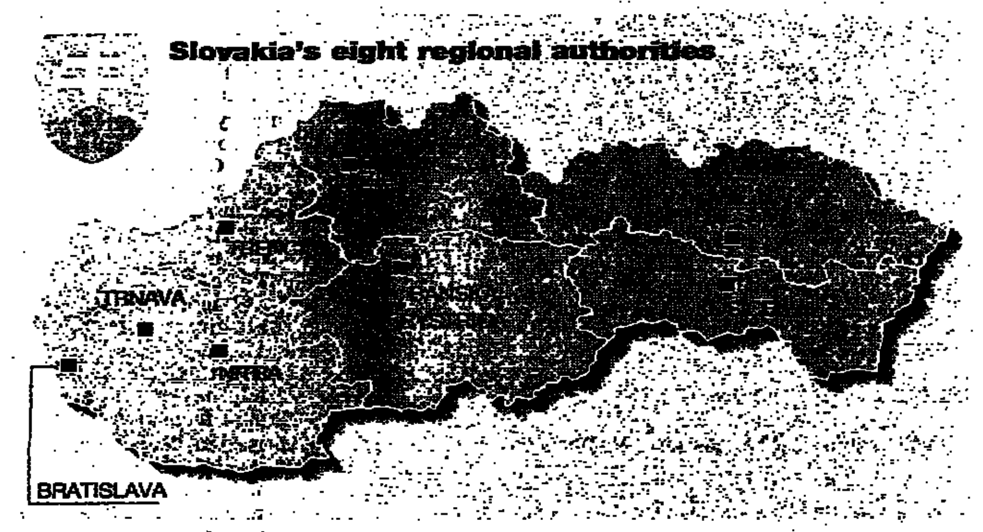
The EU insists that aspiring members must resolve disputes with their neighbours before joining. The Slovak-Hungarian treaty was supposed to do that, but it has yet to instil a greater degree of trust into their relationship.

The peoples of Slovakia

Ethnic group	Population	% of total*
Slovak	4,511,679	85.60
Hungarian	566,741	10.70
Romany (Gypsy)	80,627	1.50
Czech	53,422	1.00
Ruthenian	16,937	0.30
Ukrainian	13,847	0.20
German	5,629	0.10
Polish	2,969	0.05

*some rounded — Source: Slovak foreign ministry

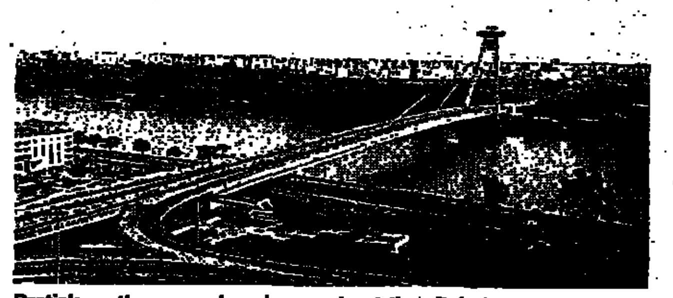
Slovakia's eight regional authorities



■ **Local administration** • by Vincent Boland

Reshaped regions

Critics claim: reform is creating too much government for a small population



Bratislava: the mayor is unhappy about the city's loss of status

A key component of Prime Minister Vladimir Mečiar's plan to reshape Slovakia's political make-up is his drive to change the way the country is administered at local level.

The traditional division of the country into four parts – Bratislava, the west, the centre and the east – which was inherited from federal Czechoslovakia, is being discarded in favour of a multitude of new regions and districts whose importance will truly be apparent if, as seems likely, the method of electing central government is also changed.

The changes to local administration are being carried out ostensibly with a view to enhancing democracy at the grass roots. But critics of the scheme, who include the mayors of many of Slovakia's main towns and cities, argue that it will strip power from those already elected to exercise it in the current regional structure, and hand it to officials in a far greater number of smaller regions who will be appointed by central government.

Legislation to create a new regional structure came into force in July. It replaced the four existing regions with eight new ones based around the country's eight largest cities – Bratislava, Trnava, Nitra, Trenčín, Žilina, Banská Bystrica, Prešov and Košice. Each of the eight regions is in turn divided into a number of districts.

Each district and each region will eventually have its own elected administration which will be responsible, at least in theory, for its own affairs. This will result in 79 governments at district level, above which there will be eight regional governments, above which there will be central government. As critics of the scheme point out, that is a lot of government for a nation of just 5.4m people.

Mr Mečiar hopes the 79 districts will eventually become 79 political constituencies. He is mulling plans to change the electoral system from proportional representation (PR) based on the party list system to one that either combines PR and first-past-the-post or is a straightforward first-past-the-post system, which is his preferred choice. The prime minister originally wanted to create 75 districts, each electing two MPs, to the 150-seat parliament, but local jealousies and rivalries necessitated four more.

The current parliament, dating from 1994, was elected according to the old regional breakdown and gave Mr Mečiar's Movement for a Democratic Slovakia (HZDS) 61 seats with 35 per cent of the vote. HZDS is the only Slovak political party organised on a national basis, and Mr Mečiar clearly hopes it would win an overall majority under the new combined system of electoral districts and a reformed voting system.

To strengthen the party's hand with this aim in mind, many key offices in the new district and regional governments will be filled by appointees rather than elected officials. Education and planning, for example, will be in the hands of officials put in place by the government, with HZDS appointees naturally filling the bulk of these jobs.

While these appointed officers are likely to be local powerbrokers, it is doubtful where their true loyalties will lie and many are certain to be more loyal to central government than to the desires of locals.

Among the fiercest opponents of the new regional make-up are the mayors of Slovakia's largest cities. Peter Kresánek, mayor of Bratislava, is unhappy that the capital has lost its special status as the capital district and become just another region. He predicts that, with officially-approved functionaries in place in the new administrations, central government will be able to impose its will on the new regions and districts in a way it has not been able to do up to now.

This is clearly what Mr Mečiar is aiming to do. Slovakia, despite its small population, is ethnically and politically quite a diverse country. The prime minister boasts that HZDS appeals across ethnic and class lines, but its performance at elections disproves this claim. Its power base is central Slovakia, and it has little support in either Bratislava or Košice, the two largest cities, or in the south.

If electoral reform follows the administrative changes, the next election, due in 1998, will test whether Mr Mečiar's particular brand of local democracy pays off for him.

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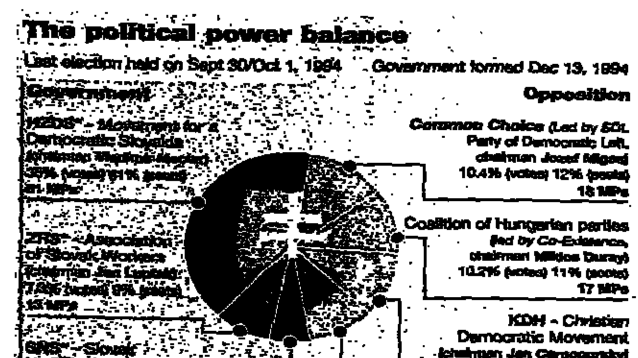
■ Politics • by Vincent Boland

Fractious coalition sits uncomfortably

Mr Mečiar hopes a new electoral system will strengthen his position



Mr Vladimír Mečiar, the prime minister, likes to keep both supporters and opponents guessing. His announcement in late August of senior cabinet changes took even some of the new appointees by surprise – the new economy minister, Karol Cesnek, reportedly heard of his appointment on August 27, the day it was unveiled publicly.

Surprise is one of Mr Mečiar's main weapons in keeping his fractious two-year-old nationalist/populist coalition together. He is unchallenged within the government, but on the rare occasion when his grip falters the coalition begins quickly to unwind, as it did in June during a damaging row about privatisation.

Mr Mečiar saw off that crisis by playing allies and potential allies against one another until he got what he wanted – a new coalition agreement that gives more power to his Movement for a Democratic Slovakia (HZDS). Political observers in Bratislava say the coalition will end when the prime minister wants it to end, and not a moment earlier.

Mr Mečiar is nonetheless increasingly uncomfortable in coalition with the far-right Slovak National Party (SNS), with its racist attitude to the Hungarian minority, and with the workers' alliance (ZRS), which has no policy other than survival in office and hostility to the EU and Nato.

While much of the environment of confrontation that characterises Slovak politics is directly attributed to the prime minister's intolerance of opponents and loathing of President Michal Kováč, some of the nastier bits of legislation that target the Hungarian minority and impose harsh penalties for "slandering the republic" are the product of SNS xenophobes.

Mr Mečiar swallows these measures as the price of staying in office. His excuse for having the SNS in the coalition is that "you cannot choose your own brother". But he makes no secret of the fact that he is not a fan of coalitions.

To get them out of the way he is drafting a new electoral system. He is seeking to change the current party list style of voting to either a German-style combination of first-past-the-post and proportional representation or a British-style first-past-the-post system, which is his preference.

A new system would, he hopes, overcome the need for coalitions and give the HZDS – and any other large party – a massive edge against small parties. "The electoral system we have now is copied from the Italians, but unfortunately they have abandoned it," he says of the list system inherited from federal Czechoslovakia. "We are searching for a more stable system that would reflect the political will of the population and stabilise the work of parliament and the executive. We don't have a democratic structure like true democracies."

In line with the electoral reform proposals, Mr Mečiar is also undertaking a sweeping reorganisation of the regional structure of the country that will, coincidentally, ensure HZDS benefits electorally. This smacks of gerrymandering, but the reorganisation should also benefit a single opposition force. The proposal, which he hopes will perpetuate the HZDS, would thus have the paradoxical effect of uniting the opposition.

> The HZDS is strengthened by divisions within the opposition

One reason the HZDS appears so strong is because the opposition is so divided. Centrists have yet to work out a *modus vivendi*, and Mr Mečiar's policy of divide-and-rule keeps them off-balance. Through the government's parliamentary majority, opposition MPs have been prevented from chairing committees, a bias strongly condemned by the EU.

Aware that some semblance of unity is required if a credible alternative to the prime minister is to be presented at the next election, due by September 1998, three opposition centre-right parties – the Christian Democrats (KDH), the Democratic Union and the Democratic Party – are edging towards a co-operation agreement. Though separately the three parties would probably win more votes at the polls, "co-operation before an election or in government is no problem," says Ján Carnogurský, the KDH leader.

Whether they formally agree a deal depends on what changes to the electoral system Mr Mečiar introduces, which may make a single opposition bloc necessary to stand a chance at the polls against the HZDS. Few observers doubt that unity is necessary, but there is no obvious leader with the prime minister's charisma and drawing power. He is a populist through and through, while other party leaders are urban intellectuals in a largely peasant culture.

Whether his hope of having a new voting system in place at the next election becomes reality depends entirely on whether his small coalition allies support it. It is unlikely to be the issue on which the government falls, however. There are other problems on the horizon, most notably a series of inquiries under way into incidents resulting from the kidnapping last year of the son of President Kováč.

The sacking of Ludovit Hudek as interior minister in August was directly linked to his handling of the incident, in which he and his ministry have been accused of a cover-up. His replacement, Gustáv Krajči, has promised to publish police reports into aspects of the incident, but few Slovaks expect any real answers.

The removal of Ján Ducký as economy minister was more surprising. He represents the industrial establishment, a powerful lobby which has benefited enormously from favourable privatisation deals, many handled by the ministry. His removal may signal a rift between that establishment and Mr Mečiar, whom industrialists backed heavily in the 1994 election.

Mr Mečiar's growing number of political enemies may also force him to abandon his hopes of ousting Mr Kováč. The bitterness of their relationship, stemming from the latter's role in his removal from power temporarily in 1994, continues to poison the political atmosphere. Mr Mečiar's only hope of removing him is by winning 90 votes in parliament to vote him out.

He is unlikely ever to win those votes. Support for the president is the only thing that unites the entire opposition and his continuing in office is "its only success," Mr Carnogurský notes. It is nonetheless an important one. Mr Kováč, who has kept his dignity through an intensely difficult period since taking office in 1993, is for the moment the only bulwark against Mr Mečiar's accumulation of power.

■ The economy • by Kevin Done

Money supply triggers anxiety

Concerns that strong economic growth is running out of steam are growing

Slovakia has emerged as the surprise winner among the economies of central and eastern Europe during the early years of transition.

Doubts abroad about the country's political leadership continue to hamper its efforts to attract foreign investment, but Slovakia's economic performance is still outstripping its more favoured neighbours, the Czech Republic, Hungary and Poland.

It is forecast to achieve one of the highest levels of economic growth, combined with one of the lowest inflation rates, of any of the transition countries of central and eastern Europe in 1996 and 1997. It has one of the lowest levels of external debt in the region and a balanced government budget.

According to a recent report by the Organisation for Economic Co-operation and Development (OECD), the club of the world's richest industrial nations which Slovakia hopes to join next year, gross domestic product (GDP) is expected to grow 5 to 6 per cent both this year and next.

The economy expanded by 7.4 per cent in 1995, and growth rates have begun to rival some of south-east Asia's "tiger" economies.

The rate of inflation fell to 5.2 per cent year-on-year in September from 8.8 per cent a year earlier, and is forecast by the OECD to remain at around 6 per cent next year. The exchange rate, one of the anchors in the fight against inflation, has been stable against the D-Mark and the US dollar for the past three years.

Unemployment has fallen from the peak of 15.2 per cent reached in early 1994 to around 12.5 per cent at present. There are big regional disparities, however, with the unemployment rate being as low as 4 to 5 per cent in the capital, Bratislava, but more than 20 per cent in some districts in central and east Slovakia.

The country's performance still provokes some disbelief among western bankers in Bratislava.

"There are still serious problems," says one leading banker. "The infrastructure is backward, other countries seem to be doing more; technology is not state of the art; enterprise restructuring is slow; foreign direct investment is unnaturally low; there are horror stories of non-performing loans at the big Slovak banks, and yet the macro-economic story is great."

Exports provided the main impetus in 1994 and 1995, but it is domestic demand that has fuelled growth this year, supported by several ambitious infrastructure programmes. With exports stagnating this year, and the value of imports rising rapidly, concerns have been sparked about the country's growing trade deficit, however, which has led the central bank to introduce a series of measures to tighten monetary policy.

Around two-thirds of GDP is now generated by the private sector thanks to the rapid growth in the number of small and medium-sized enterprises, although state influence still prevails in several sectors of heavy industry.

The OECD is critical of Slovakia's "turbulent" privatisation policies and has warned that the state of the Slovak banking system "remains a cause for concern".

Faster progress in enterprise restructuring is considered crucial if the pace of economic growth and the development of exports is to be sustained, not least because of the concentration of economic activity in large, partly state-owned enterprises.

"Current competitive advantages of some export products cannot be expected to last indefinitely," the OECD warned in its recent report.

The current account has deteriorated rapidly to a deficit of $740m in the first half of the year from a surplus of $400m in the first half of 1995 and a surplus for the whole of 1995 of nearly $650m.

Behind the growing deficit lies a significant rise in imports of both consumer and investment goods to meet the jump in domestic demand. Bank lending has been fuelling the economic expansion with credits to enterprises and households growing by around 20 per cent year-on-year.

Anxiety at the National Bank of Slovakia – the central bank – has been triggered by the rapid growth in the money supply. It began to raise interest rates in the early summer, and then followed up with a widening in the fluctuation band for the currency, with an increase in the minimum reserve requirements for the commercial banks and with actions to restrict foreign currency lending in order to squeeze liquidity in the banking system.

Higher interest rates have attracted renewed capital inflows and have also led to a strengthening of the currency. Central bank reserves have grown despite the large outflows on the current account, where ING Barings, the investment bank, is forecasting a deficit of $1.3bn for the full year. The surplus on the capital account could be as large as $1.5bn this year, more than compensating for the deficit on the current account.

According to ING Barings, the principal reason for the deteriorating trade balance has been extraordinarily high imports of technology, commodities, cars and investment goods. Imports during the first seven months of 1996 rose by 26.2 per cent year-on-year to $5.9bn, including technology for completing the Mochovce nuclear power plant, as well as imports of cars. The latter have been encouraged by the temporary suspension of import surcharges on cars with engines under 1.5 litres.

Sergej Kozlik: dismisses fears over growing trade deficit

By contrast, exports in the first seven months rose by only 4 per cent to $4.9bn. The most important category was exports of iron, steel and semi-finished metal goods. Exports suffered in particular in the early months of the year falling by 4 per cent in the period to the end of April. The export performance began to improve in May and in July growth reached 15.7 per cent year-on-year.

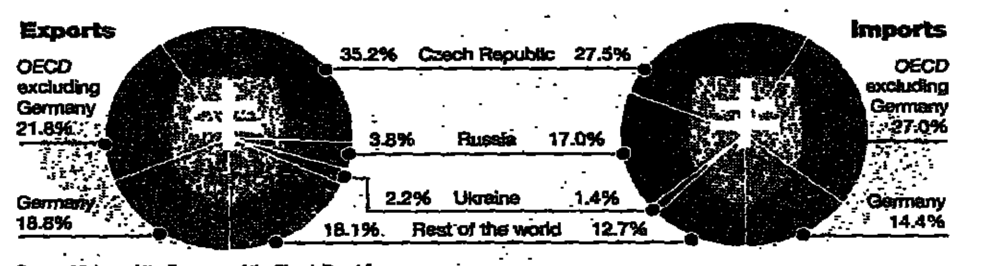
ING Barings says Slovakia has been particularly hard hit by the downturn in economic activity in the European Union in the early months of the year, which turned a trade surplus with the EU of Sk4.4bn in January-April 1995 into a deficit of Sk977m in the corresponding period this year.

Slovakia's two-year trade surplus with the Czech Republic has also turned into a small deficit, and the country recorded its largest ever trade deficit with Russia, on which it relies for most of its energy imports of oil and gas. For the full year, overall exports are forecast to grow only a modest 6 per cent – compared with 27 per cent last year – with imports rising 24 per cent.

While a current account deficit is desirable at this point in the transition process, the ING Barings study suggests that a deficit on the present scale is unsustainable in the longer term. It forecasts, however, that the rate of growth in the trade deficit will stabilise by the end of the year. The outlook for 1997 is more promising, with economic activity in Germany starting to recover and growing markets to the east with Ukraine, Russia and Kazakhstan becoming more important trading partners.

Sergej Kozlik, the Slovak deputy prime minister and finance minister, dismisses fears over the growing trade deficit and claims that an important part of the increase in imports is accounted for by technology needed to modernise and restructure industry. Slovakia has almost made up the ground lost in the transition process with GDP "now very close to the 1989 level". The economy now has a very different structure, however, and Mr Kozlik believes there must be an acceleration in investment to increase the share of higher value added products and to increase further the share of services.

Trading partners 1995



Source: Ministry of the Economy of the Slovak Republic

■ The Kovac kidnapping • by Kevin Done

An unsolved mystery

Who was behind abduction of the president's son remains a matter of fierce debate

The saga of the kidnapping and abduction to Austria last year of Michal Kovac Jnr, the son of President Michal Kovac, has provided a bizarre and disturbing background to the tough political battles being waged in Slovakia.

It has been a key factor in the long-running conflict between the president and Prime Minister Vladimir Mečiar, which has been further exacerbated by the chain of murky events that has unfolded since the kidnapping.

These have included:

- the replacement of the first two sets of policemen investigating the case;
- the physical assault on a journalist investigating the case for SME, one of the main opposition newspapers;
- the death in a car explosion of a close friend of a former intelligence officer allegedly involved in the abduction;
- the disclosure of a tape recording of an alleged conversation between Ludovit Hudek, the then interior minister, and Ivan Lexa, head of the SIS, the Slovak intelligence agency, discussing, in part, the dissemination of misinformation on the kidnapping; and
- the replacement of Mr Hudek as interior minister in a recent government reshuffle.

Mr Kovac Jnr, a 35-year-old businessman, was taken from his home at the end of August last year, beaten up, forced to drink bottles of spirits, and dumped in the boot of a car outside a police station in neighbouring Austria. The police were alerted to his presence by an anonymous phone call.

He was detained in Austria to face extradition to Germany on suspicion of fraud, but a Vienna court later freed him.

Responsibility for the abduction is still unclear, and in interviews on the event Mr Meciar has insisted on referring to it as "an alleged kidnapping". President Kovac, on the other hand, has insisted that the abduction was the work of the Slovak intelligence service.

In an interview with the Financial Times, however, Mr Meciar alleged that "the president himself knew very well that the kidnapping of his son was under preparation, and he did not do anything about that…he in fact was trying to do everything in order that the investigation would fail."

Mr Meciar also said that the tape of the alleged conversation between Mr Hudek and Mr Lexa had been cut and edited together, that both participants had denied the authenticity of the conversation, but that in any case the contents of the taped conversation was not illegal. "On the other hand, the method by which this tape was made was illegal."

At present there seems little prospect of the Kovac Jnr saga reaching a conclusion.

In the most recent development, last week, authorities indicated that the various investigations mounted by the police had effectively run into the sand.

According to the interior ministry, because of lack of evidence the police have adjourned investigations into two of the cases linked to last year's kidnapping, namely the tape of the alleged telephone conversation between Mr Hudek and Mr Lexa, and the mysterious car explosion which killed the former policeman who was linked to the allegations that the Slovak intelligence agency was involved in the abduction.

The man who died, when his BMW exploded in Bratislava last April, was Mr Robert Remias. He was a close friend and contact of Oskar Fegyveres, a former SIS officer, who said he had taken part in the kidnapping, which he said had been organised and carried out on the orders of the SIS. Mr Fegyveres is in hiding outside Slovakia.

In theory, the cases can be reopened if new evidence comes to light, but last May police also adjourned the original investigation into the kidnapping itself, also for lack of evidence.

Amid the welter of allegations and rumours in Bratislava, President Kovac has not given up hope, however, of eventually clarifying the circumstances behind the kidnapping of his son.

In an interview with the Slovak Spectator last month, he said: "We know who abducted him. It's just a question of proof. We'll be able to prove the guilt of the perpetrators when Slovak laws are fully respected, when state investigators and the prosecution are not dependent on the prime minister. We will succeed. One day we will achieve this state of affairs."

■ **Banking** • by Vincent Boland

Privatisation is a daunting task

A timetable is still far away for a sector bedevilled by bad loans and uncompetitiveness

As the privatisation of Slovakia's main banks inches to the top of the government's agenda, the scale of the task looks ever more daunting. By general consent the sector is uncompetitive, top-heavy and saddled with loan-loss problems. Radical surgery will be required before the banks are fit to come to market.

Privatisation was a live issue once before – last January. Vladimir Mečiar, the prime minister, astonished the audience at a business conference in Bratislava by announcing that it would be completed by February 15. That timetable was never realistic (it is not clear why he made such a rash pledge), and since then selling the state's large stakes in the main financial institutions has become more urgent and more difficult.

Three banks dominate the sector: Všeobecná Uverová Banka (VUB), the largest universal bank, of which the state owns 48 per cent; Slovenská Sporitelňa, a savings bank (91 per cent); and Investment & Development Bank with 35 per cent. These banks own 62 per cent of total banking assets, with the remainder spread among 28 other banks, of which over half have some form of alliance with a foreign shareholder.

VUB and IRB were partly sold off through coupon privatisation and are listed on the Bratislava stock exchange. But they remain, along with the savings bank, virtual arms of the state bureaucracy: they are intimately linked to the government's industrial privatisation policy, sources of limitless but expensive credit to clients that may already be in default but which, because of the paucity of bankruptcy legislation, need not fear having the credit switched off.

Sergei Kozlík, the finance minister, says privatisation is still an open question. "What is clear is that a change of ownership [from state to private] should be accompanied by restructuring," he says. "Until the latter is decided, they won't be privatised".

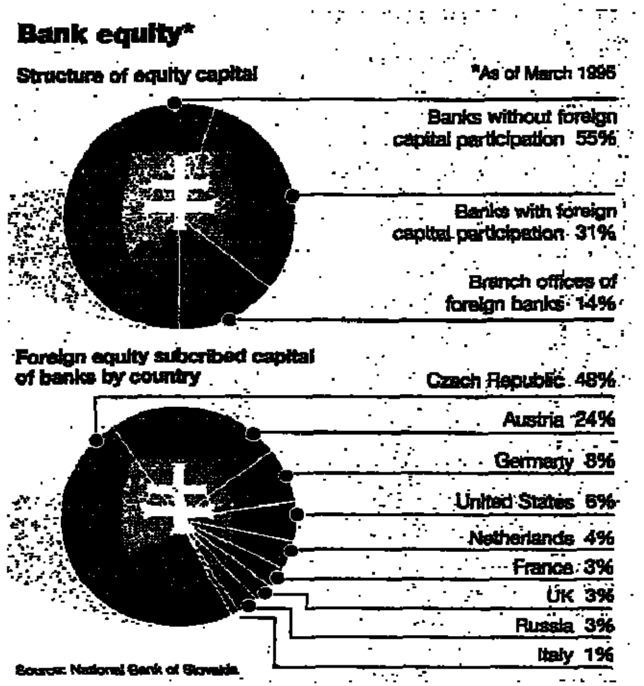
> Banks are pushing for a change in tax rules on problem loans

Restructuring the sector means tackling its bad debt problem. According to the Organisation for Economic Co-operation and Development (OECD), 29 per cent of the Sk451bn of outstanding loans granted by Slovak banks at the end of 1995 were classified (payment more than 90 days in arrears). A further 9 per cent were in the "special mention" category, which could "be a forewarning of further difficulties ahead".

The majority of these problem loans are held by the Big Three, and a large proportion are underwritten by the state budget. Despite this, the loans place an onerous burden on the banks, which must pay tax on the interest they would have received if the loans were sound. Both the National Bank of Slovakia and the commercial banks are pushing to change this rule. It keeps alive unviable enterprises and is a bar to restructuring in the wider economy.

Mr Kozlík says the government is sympathetic, and predicts that "a breakthrough period" will start next year when the taxation of loan losses will change. If it does, banking experts say it could take at least two years for the main banks to sort out their loan portfolios and make adequate provisions against losses.

The question then arises of how to privatise the Big Three. Foreign bank participation in the sector is already high – 45 per cent of total bank equity is either fully or partly owned by foreign, including Czech, banks. While Mr Kozlík says further foreign partnerships are not ruled out, it may not be politically acceptable.



Source: National Bank of Slovakia

The government and the NBS have to decide if the Big Three need strategic partners and who they should be. A controversial partner has already emerged for IRB in the shape of VSZ, the huge steel company in Košice, which has taken a 15 per cent stake. The NBS needs to approve any shareholding over 15 per cent in a bank and is known to be unhappy at the prospect of industrial partners for domestic banks. It has rejected a request from VSZ to increase its stake, but the steel company's move will help to concentrate minds on the issue of partnerships.

Some commercial bankers are also unhappy at the prospect of banks becoming subsidiaries of much larger industrial groups. VSZ, a large importer and exporter, accounts for nearly 30 per cent of Slovak foreign trade. Granting it ownership of a key bank "would make it a state within a state," observes L'udovít Pósa, general manager of Pol'nobanka, a private bank.

Nevertheless, if domestic strategic partners are the solution, then the only partners available are the likes of VSZ or Slovnaft, a petrochemicals group, or other large industrial concerns. Mr Kozlík suggests institutions such as the European Bank for Reconstruction and Development (EBRD) as potential partners. Given the EBRD's experience at Slovnaft, where it owns 10.5 per cent but was angered by the sale without its knowledge to management of 39 per cent, the bank may be reluctant to take on such a role again. The EBRD also owns 20 per cent of Pol'nobanka.

Disgruntled bondholders queue outside offices to have certificates corrected *Picture: Kevin Done*

■ **Sale of state assets** • by Vincent Boland

Sell-offs give rise to suspicions

Shareholders are sometimes not aware that part of their company is about to be sold

Privatisation in Slovakia has an image problem. The secrecy that surrounds the government's approach to selling state companies to single investors, usually management, has lent the process an unnecessary degree of furtiveness.

The government claims the ending of coupon privatisation – under which individuals could exchange books of vouchers for shares in state companies – last year and the introduction of direct sales is in the national interest. But the suspicion is that the coalition believes that it, and not the taxpayer, owns the property being privatised.

While there is no suggestion that politicians are lining their pockets with the proceeds from the sales, the close ties between the political and industrial establishments, and the difficulty in many cases of establishing details of individual privatisation agreements, have bred public cynicism about the direct sales approach.

Coupon privatisation was popular, and more than 3m Slovaks had signed up to participate when the programme was cancelled in the summer of 1995. It was cancelled because the government disliked the dispersed nature of share ownership that results from distributing a small stake in a state company to so many people, a process that requires a vast amount of paperwork. It also disliked the investment funds that were set up to manage those stakes on behalf of investors. An unstated reason was that, as an invention of Czech reformers, it was also felt to be too "foreign".

To compensate, a state-backed, five-year bond worth Sk10,000 was issued to each coupon holder. These became tradeable in August and, because they can be used to pay debts to the National Property Fund (NPF), the state holding company, were expected to be bought by the buyers of companies bought under direct sale privatisation, which replaced the coupon system.

The bonds can be exchanged for health and pension insurance, shares in companies still in state hands, or to buy apartments. But bureaucratic bungling has led to a host of errors – many of them simple spelling mistakes – in issuing the bonds, forcing disgruntled holders to queue at government offices to have their certificates corrected.

Since the introduction of the direct sales approach, the speed of privatisation has picked up dramatically. Property worth Sk49bn has been sold directly to investors, the majority through management buy-outs, according to the NPF, the state holding company. A further Sk36.7bn has been sold through block trades on the Bratislava stock exchange.

The price at which stakes are sold depends on the book value of the companies involved. In the case of management buy-outs, buyers frequently pay 10 per cent of the stake up front. The remainder is paid either in instalments over 10 years or through investing in the restructuring of the company. Investment spending is considered to be a discharge of the debt to the NPF.

However, little of the detail of each transaction is made public at the time the sale of a company is announced, if it is announced at all. In many cases the decision to sell a stake is not made public beforehand, so there is no tender. Often the sale is announced through a newspaper advertisement, where details of the contract between the NPF and the buyer may or may not be disclosed. Since the company involved is frequently already quoted on the Bratislava stock exchange because part of it was floated through an earlier coupon privatisation in 1991-92, existing shareholders often have no idea if part of their company is about to change hands.

Examples abound. Last year, 39 per cent of Slovnaft, a petrochemicals group, was sold to management without any signal to other shareholders, including the European Bank for Reconstruction and Development (EBRD). More recently, stakes in Nafta Gbely, a gas company, and SCP, a pulp and paper concern, were sold to buyers linked to management without a public tender, even though there was active interest from foreign investors. These are among the biggest in Slovakia.

While there is sympathy for the decision to abandon coupon privatisation and the desire to create a domestic entrepreneurial class, there are growing fears that in many cases the buyers are not the best owners. "You can argue that privatisation by management buy-out is fine for small and mid-sized companies, but if you have huge corporations it doesn't make economic sense to give them away," says Jaromir Cekota, the EBRD representative in Bratislava.

The Organisation for Economic Co-operation and Development (OECD), which Slovakia hopes to join next year, also voiced its concern over the accountability of the country's privatisation drive. While broadly sympathetic to the government's aims, the OECD said greater transparency was needed, "if not for perceptions of fairness, then at least for a clearer public understanding of the rationale for the current approach".

Nevertheless, the current drive is now almost over. Vast chunks of the economy have now been removed from state ownership. There are, however, still a number of key sectors that remain firmly in state hands – telecommunications, banking, and energy being the most important. A proposal to seek a strategic partner for Slovenske Telekomunikacie, the telecoms monopoly, is being drawn up by NM Rothschild, which will be the most important privatisation to date if it goes ahead.

But bankers in Bratislava say the government also needs to clarify its approach to "strategic" companies, which it says will not be privatised or will remain predominantly in state ownership. Earlier this year, faced with a court action that could have bankrupted Slovenske Telekomunikacie, legislation was passed making all state companies exempt from bankruptcy. Such arbitrary measures suggest the approach to privatisation is based as much on expediency as on a rational approach to creating a healthy and vibrant private sector.

■ **Profile : Tatra Banka** • by Kevin Done

Raiffeisen group finds fertile ground

Austrians revive the traditions of an old, pre-communist institution

Austria's Raiffeisen Zentralbank (RZB), one of the western banks at the forefront of the drive into central and east European markets, has found fertile ground for development in Slovakia: the Raiffeisen group, the biggest banking organisation in Austria, controls a 62.89 per cent stake in Tatra Banka, the first private bank started in Slovakia after the collapse of communism.

While the three main Slovak banks – all with substantial state ownership – are still struggling to be competitive and are burdened by a large portfolio of non-performing loans, a small group of private banks has been able to develop highly-profitable operations in Slovakia.

"The big banks have too many people, poor quality and many poor loans," says Milan Vrškový, Tatra Banka's general manager. "Our ambition was to build a new modern, private bank, a medium-sized, commercial universal bank. We are now the most profitable bank in Slovakia."

RZB first entered the Slovak market directly in 1990 as a minority partner in the newly-founded Tatra Banka, with a 33.6 per cent stake. CS First Boston was the other leading foreign shareholder, with 8.96 per cent. Further stakes of 11.2 per cent each were held by two of the Slovak banks, Všeobecná Uverová Banka, and Slovenská Sporitelňa, the savings bank, and by Slovenská Poistovňa, the insurance group.

In a series of moves, including the acquisition of the CSFB and Poistovňa stakes as well as through a capital increase, the Raiffeisen group has nearly doubled its original stake to gain majority control. RZB, the organisation's central institution, holds 52.59 per cent and Tatra Holding, controlled by one of the Raiffeisen organisation's regional banks in Austria, owns 10.3 per cent.

In Slovakia, the group presents itself as a local bank. The name revives the traditions of the former Tatra Banka, which was founded in 1885 but was nationalised during the communist era to become part of the Czechoslovak State Bank. Internationally, it is the Raiffeisen link that is stressed.

Unlike most western banks, RZB has sought to develop as a universal concern in east Europe, including both retail banking for private customers and wholesale operations for the corporate sector.

Tatra Banka was one of its earliest investments in the region. The Slovak operation has already built up a network of 17 branches around the country – eight in Bratislava and nine outside the capital.

Mr Vrškový says the bank is still following the original strategy of developing a network of between 30 and 40 branches by the end of the decade. It expects to have 22 banking outlets operating in Slovakia by the end of 1997.

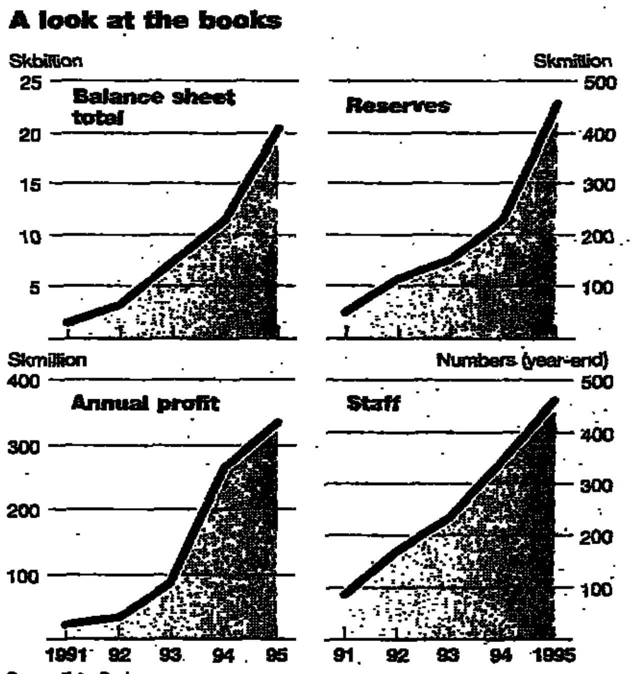
Tatra Banka has grown rapidly, with total assets jumping by 78 per cent last year to Sk20.4bn from Sk11.5bn at the end of 1994. It forecasts a further rise to nearly Sk30bn by the end of this year. Net profits rose 26.4 per cent last year to Sk333.4m.

"Tatra Banka has been a great investment for Raiffeisen," says Mr Vrškový. "It has already more or less got its money back."

The Slovak subsidiary is one of RZB's two biggest operations in central Europe, alongside Unicbank in Hungary, but it has the larger branch network.

Andreas Tretzmüller, head of Tatra Banka's corporate banking division, says development of the branch network means that the bank can gain access to primary funding through the deposits of both individuals and small and medium-sized enterprises.

At the same time, the branches allow the bank to cater for the day-to-day banking operations of multinational companies with factories or offices spread around the country, while also enabling it to focus more easily on attracting new customers among small and medium-sized Slovak companies.



Source: Tatra Banka

Herbert Stepic, deputy chairman of RZB and architect of the bank's drive into eastern Europe, says the region accounts for 10 per cent of the Austrian bank's assets but already provides 50 per cent of its net profits. "We earn a lot of money in east Europe. That is a major reason we continue to expand. It is very difficult to earn good money in our [domestic] market, where the market is occupied and the margins are very low."

At Tatra Banka, treasury and corporate lending activities are the most interesting profit sources, with interest income accounting for 60 per cent of operating income and fees and commission for 40 per cent.

It claims a share of more than 5 per cent of Slovak deposits, more than 4 per cent of lending, and more than 20 per cent of domestic bonds and equities trading. It is also handling around 12 per cent of Slovakia's Swift international payments traffic.

"Our primary target is still return on equity," says Mr Tretzmüller. "It does not make any sense to go for the market share of the big state banks. Our goal is to stay at the top of the medium-sized private banks."

To allow for further growth, Tatra Banka's shareholders increased the bank's capital base last year with the injection of a further Sk200m, and the bank has also negotiated a DM25m subordinated loan from the European Bank for Reconstruction and Development.

■ Motor industry • by Kevin Done

VW on course with Golfs

Lower costs help manufacturer to offset expensive structures at German plants

Slovakia is the most recent addition to the network of Volkswagen car assembly sites around the world.

The German carmaker began hesitantly in the country in the early 1990s, but during the last three years it has rapidly developed its plant on the outskirts of Bratislava and has emerged as the leading foreign industrial investor in Slovakia.

Car output has jumped from 3,000 units in 1993 to 20,000 last year and a forecast 30,000 in 1996. Europe's leading carmaker has moved all production of its four-wheel-drive (FWD) Golf Syncro family hatchbacks and estate cars to Bratislava from Wolfsburg, its main plant in Germany.

The Bratislava operation, the only plant producing the sophisticated top-of-the-range FWD Golfs for the world market, is being developed for low-volume assembly of niche vehicles. Such cars can be produced much more cheaply in a flexible, labour-intensive plant – the Bratislava facility has no robots – than on the highly-automated, capital intensive assembly lines of VW's big German plants.

VW has developed its Slovak subsidiary as a low-cost assembly plant with body welding, paintshop and final assembly operations. Parts arrive every night directly at the plant by train from Braunschweig, Germany, through the Czech Republic.

The FWD Golfs account for the bulk of car output, but the plant also assembles some front-wheel-drive Golfs for sale in Slovakia and in other markets in central and eastern Europe.

The operations are being expanded as part of the German group's efforts to offset its high domestic cost structure.

In addition to car production, the Bratislava plant also assembles gearboxes and machines some gearbox components as part of an effort to lower the production costs of VW's main German gearbox plant at Kassel.

Gearbox assembly was started in 1994. Output has been raised from 44,000 units in the first year to 186,400 in 1995 and is expected to reach 259,000 this year. From early 1998, VW is planning to add a second range of high-performance gearboxes for final assembly in Bratislava, which would increase output of transmissions from 1,100 to 1,500 a day.

VW has also moved a machining line from Kassel to Bratislava and this year will produce around 5.8m gearbox components – up from 1.8m in 1995, the first year of production – for use at both the Slovak and Kassel plants.

Bratislava is being used as "an extended workbench" for Kassel, says Karl Wilhelm, technical managing director of Volkswagen Bratislava. "They have cost problems. Machining these components in Bratislava cuts the cost of a gearbox and makes Kassel more competitive. This is interesting for both plants and gives them a long-term future."

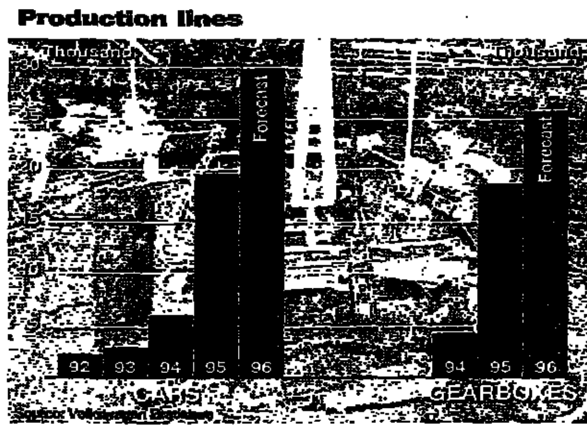
The workforce is growing rapidly as a result of the transfer of operations from Germany, and has increased from 817 at the end of 1994 to around 1,920 at present. It is expected to reach 2,500 by the end of 1997.

The Slovak operation, originally expected to be in loss until 1997, has been profitable since 1995. Capital investment will total DM215m by the end of the year, and a further DM100m is to be invested in 1997 and 1998, says Mr Wilhelm. Investment in the paint plant will increase the production capacity from 130 to 150 cars a day.

Production of gearbox components is also being expanded, and by mid-1997 the plant will produce all the gearbox driveshafts for Kassel, with output rising from 25,000 to 40,000 a day.

"Even with the extra transport, the cost for these parts is still about half what it would be in Kassel," says Mr Wilhelm. "If the situation develops as we expect, we can do more and more parts here, as we develop the workforce."

Production lines



Jozef Uhrik, commercial managing director, says that the plant's big advantages are the high skill levels of the workforce and low wage costs, as well as its location close to the borders with Austria – it is only 60km east of Vienna – and Hungary.

The average age of the workforce is just over 28 years, and more than half of the workforce has Abitur (advanced level) qualifications or higher, while total labour costs are 15 times higher at VW plants in Germany than at Bratislava.

VW has been able to take advantage of the restructuring of the Slovak arms industry, one of the big centres for weapons production in the former East Bloc, by attracting more than 300 skilled workers from former armaments factories. The 1,900-strong workforce has been selected from more than 16,000 applicants.

While labour costs are still very low, wages have risen by around 15 per cent this year, and energy costs have also risen by 20 to 30 per cent. Mr Wilhelm is concerned, too, about the high level of labour turnover and absenteeism. Unemployment in the Bratislava region is only some 3 per cent, and 40 per cent of the workforce has to be brought in from outside the immediate region.

VW is seeking to attract more components suppliers to Slovakia, but it is keen that they set up operations in the central and eastern regions rather than close to Bratislava. In one such move its affiliate Volkswagen Bordnetze, a 50-50 joint-venture with Siemens, the German electrical engineering group, is establishing a plant at Nitra to make wiring harnesses (automotive cable systems), which eventually will create more than 1,000 jobs.

■ Aluminium • by Kevin Done

From eyesore to showcase project

A clean balance sheet for Slovalco paves the way for a cleaner environment

The mountain of red and brown bauxite waste still dominates the valley approach to the ZSNP aluminium works in central Slovakia, the legacy of decades of environmental neglect.

Inside the sprawling complex, the old, inefficient and polluting smelters have been closed down, however, and now stand rusting beside the gleaming white and grey buildings of one of Europe's most modern aluminium smelters.

In partnership with Norsk Hydro, the Norwegian light metals and oil and gas group, and the European Bank for Reconstruction and Development, ZSNP has recently completed the full commissioning of the $400m Slovalco plant. It is an important move towards modernising the country's industrial base, increasing Slovak exports and improving the environment.

The aluminium industry at Ziar nad Hronom, in the foothills of the Lower Tatra mountains in central Slovakia, had long been identified as a big source of air and groundwater pollution in central Europe.

A decade ago, ZSNP, Zavod Slovenského Narodného Povstania – Slovak National Uprising Works – embarked on an ambitious project to replace the old smelters with modern technology and pollution control systems. By the early 1990s it was still far from completion, however, and with the collapse in world aluminium prices to historically low levels, lack of funding forced construction to a halt in April 1993.

ZSNP had become virtually insolvent, with more than $100m of debts to domestic Slovak and Czech banks that it was unable to service.

The recovery in the project's fortunes owes much to foreign investment and in particular to the active engagement of the EBRD and of Norsk Hydro. Slovalco has become a showcase project for the EBRD's role in fostering the transition process and industrial restructuring in eastern Europe.

When building work stopped 1993 the plant was still only 65 per cent complete. However, an independent study led the EBRD to believe that the smelter could become a profitable venture given adequate financing and management.

In return for agreeing more than two years ago to provide long-term funding, the bank insisted that the project should be separated from the past financial and environmental liabilities of ZSNP.

A new stand-alone joint stock subsidiary, Slovalco, was created with a clean balance sheet, a standstill agreement was negotiated with ZSNP's domestic banks, and the EBRD also required the entry of a long-term strategic partner to provide management support and modern operating, control, accounting and financial practices.

Norsk Hydro, which was providing technology for the new smelter under the terms of the original agreement from the mid-1980s, agreed to take an equity stake in Slovalco alongside the EBRD. They have both invested $15m to acquire 10 per cent equity and 20 per cent voting stakes. The balance is held by ZSNP.

At the same time, the EBRD has provided a $110m, eight-year, long-term loan to Slovalco, one of its single biggest commitments to the private sector in east Europe.

The Slovalco plant now has a capacity to produce 108,000 tonnes a year of primary aluminium, and in addition can use up to 24,000 tonnes of scrap in order to reach a total capacity of 132,000 tonnes a year of aluminium products. The smelter has a workforce of around 700 compared with a peak of 1,300 for the old plants. ZSNP has a total workforce of 6,500, dominating the town of Ziar with its population of 20,000.

A key part of the financing agreement with the EBRD was that both of the old smelters at the site, which together had a capacity to produce 70,000 tonnes a year of liquid metal, should be shut down as part of the effort to clean up the environmental pollution in Ziar.

The old plants had taken a heavy toll on the local environment, pouring out gases such as fluorine, sulphur dioxide, nitrogen oxide and carbon dioxide as well as tar dust and organic carbon. Caustic pollution was seeping from the mountain of waste from earlier alumina production. There were serious occupational health hazards at the site, and a nearby village had to be evacuated.

As a result of the investment in the new plants, the total of gas and solid emissions from the ZSNP complex should be cut by 1998 to less than 40 per cent of the 1990 level, with fluorine emissions cut by 92 per cent and organic carbon by 95 per cent.

The new plant was commissioned in December last year, and last month the final tests were completed with the smelter declared to be performing up to the required efficiency and environmental standards. The Slovalco plant is now meeting the toughest standards set in the European Union, according to Marc Hussey, a principal banker at the EBRD.

Stefan Tesak, Slovalco's general director, claims that the investment costs for the smelter in Slovakia have been half the equivalent level in Canada or France. Costs for transporting raw materials to the plant are high, but Slovalco is close to many of its markets, and it enjoys low labour costs.

After losses last year during start-up of the new plant Slovalco is expected to make a pre-tax profit of around $20m this year, says Mr Tesak. Primary aluminium production is running at full capacity, and total output of aluminium products is expected to reach 120,000 tonnes. More than 80 per cent of output is exported.

VSZ is seeking to establish itself as the leading European supplier of sheet metal to the motor industry

■ Steel • by Kevin Done

VSZ starts to flex its muscles

The steelmaker's influence on the economy is spreading beyond core businesses

Looming over the country's industry and playing a crucial role in determining the fortunes of the Slovak economy is Východoslovenské Železiarne (VSZ), or the East Slovak Iron Works.

It accounts for between 15 and 18 per cent of Slovakia's total exports, depending on prevailing steel prices, and for around 10 per cent of the country's industrial production.

One of the largest steel producers in eastern Europe outside the former Soviet Union, VSZ has become one of Slovakia's key power bases since the country's independence in 1993. Ominously for other actors in the economy, it has started to flex its muscles.

Supported by a surge in profitability in the past three years, it has started to diversify, and its tentacles are beginning to reach well beyond the confines of the Slovak steel industry.

Together with close allies, it has emerged in recent weeks as the dominant shareholding force in IRB, Investicná a Rozvojova Banka, or the Investment and Development Bank, Slovakia's third largest bank, although it has still to clear the acquisition with the National Bank of Slovakia.

It has become a leading shareholder in Slovenská Poistovňa, the insurance group. It has entered the media, most notably through the acquisition of Národná Obroda, which is seeking to become Slovakia's leading business daily newspaper, and it has set its cap at joining the European sports elite through the takeover of Sparta Prague, one of the leading Czech football teams.

Within its traditional arena, VSZ is also seeking to establish itself as the dominant force within the steel industry in central Europe by building a series of alliances with other steel producers in the region.

The first such deal, with Trinecke Zelezarny, a leading steel producer in the neighbouring Czech Republic, is to be sealed through VSZ's acquisition of a 20 per cent stake in TZ for around Sk1bn, and both the Slovak and Czech groups say they are interested in widening the alliance to take in Poland's Huta Katowice.

Jan Smerek, the group's energetic and articulate chief executive, argues that after several years of hectic reorganisation as it emerged from the communist era, the company is now ready to take advantage of lucrative opportunities opening up in other sectors, while continuing to consolidate and modernise its core steelmaking operations. "In the last three years we increased our profits 10 times and doubled sales," says Mr Smerek.

"In Slovakia, there is a rare chance to buy, because the privatisation process is running, and for strong companies with capital there is a chance to invest at a reasonable price in other activites.

"We know our profits in steel, and we know other profitable sectors, engineering services, telecommunications, energy, and financial services. We have a chance here in Slovakia; we have enough capital."

VSZ's own privatisation was completed in 1995, and for the first time during the last six turbulent years the composition of the top management team has taken on a more settled air with the appointment of Mr Smerek as chairman of the executive board and president in April last year.

The shareholding structure is still murky, but the company believes that shareholders representing management and the trades unions now control more than 30 per cent of VSZ equity, chiefly through the companies Manager, Hutnik and Ferimex.

"The management changes reflected changes in the shareholders," says Mr Smerek. "The shareholders are generally stable now, and we can make strategic decisions."

In its core steelmaking activities VSZ still enjoys significant cost advantages compared with its western rivals – with low-cost iron ore from Ukraine and Russia and coal from the Czech Republic and Poland, and low labour costs - but Mr Smerek acknowledges that the advantages are only temporary. The group is working urgently to increase the value-added content of its products, to develop long-term relationships with key customers, to raise quality and to reduce the share of production sold on the spot market.

Capital investment totalled Sk4.2bn last year. The total is forecast to rise to Sk5.2bn this year and to average Sk5.8bn annually for the next five years.

Most importantly, it is investing heavily during the next five years in upgrading and expanding its capacity for producing tinned sheet and auto-body sheet steel.

Tinplate capacity could be tripled by the end of the decade from around 100,000 tonnes a year at present to 130,000 tonnes in 1998 and more than 300,000 tonnes by 2000.

"We cannot satisfy strong demand for these products at the moment, and this is the market where we can get the best prices," says Vladimír Svigar, managing director of VSZ Export-Import, responsible for sales and marketing and the purchasing of raw materials.

VSZ is seeking to establish itself as the leading central European supplier of sheet steel to the auto industry and is also targeting the electrical engineering sector.

It has negotiated a contract with Skoda Automobilová to supply 100,000 tonnes of auto-body sheet to the Czech carmaker, a subsidiary of Volkswagen of Germany, in 1997, up from this year's 80,000 tonnes.

Earlier this month, VSZ agreed a significant deal with VAZ, the Russian maker of Lada cars, to supply up to 100,000 tonnes next year, up from 60,000 tonnes in 1996. Mr Svigar says that the group is also seeking to become the dominant steel supplier to the rapidly growing east European vehicle assembly operations of Daewoo, the South Korean carmaker.

Despite the downturn in prices and demand in world steel markets this year from the very high levels of 1995, Mr Smerek forecasts VSZ profits and turnover in 1996 "at the same level as last year", when the group achieved a net profit of Sk2.5bn on turnover of Sk49.8bn.

Last year, the group produced 3.7m tonnes of steel, with sales of 3.3m tonnes of flat rolled products. Its most important markets are Slovakia itself, the Czech Republic and the European Union, which together account for around two-thirds of the group's production. Some 21 per cent of sales of flat rolled products go to the domestic market, 19 per cent to the Czech Republic, 27 per cent to western Europe, and 11 per cent to other parts of central and eastern Europe.

Up to 20 per cent of sales have been coming from spot business in third countries overseas, but VSZ is seeking to reduce this share by building up sales to its immediate neighbours, most importantly Poland.

"We want to stay strong in west Europe, but we want to be number one here in this region. We only have one chance," says Mr Svigar. "We must go for higher added-value products, this is the future, so we must invest. We have to be strong at home, and all the west Europeans are trying to find their way into central Europe, too. We are already here and our financial results in this region are very good."

City tales: The mayors of the capital, Bratislava, and industrial centre of Košice talk to Vincent Boland

Hopes shine bright in the gloom

Capital is left with the legacy of communists' desire to rival Prague

Prime Minister Vladimir Mečiar would love to move his country's capital from Bratislava to Banska Bystrica, the main town in his heartland of central Slovakia. For the Mr Mečiar, the current capital is "enemy territory", as one local politician put it – home to too many intellectuals, artists and opposition leaders for his liking.

That Bratislava should be such a bugbear for Mr Mečiar is somewhat surprising since, like him, the vast majority of its 450,000-plus inhabitants have their roots in the countryside. It was not until after the second world war that Bratislava became a truly Slovak city, having been dominated for centuries by the Hungarian and German-speaking elites of the Austro-Hungarian empire.

From the 1960s, huge numbers of rural Slovaks were enticed to the city by the communist regime to work in its newly-built factories. A new town was built at Petrzalka, across the Danube from the old city, to accommodate them. Today, this district claims to have Europe's largest housing estate, home to 135,000 people who are linked to the rest of the city only by the forbidding SNP motorway bridge, the construction of which involved the destruction of the Jewish quarter of the old town.


Peter Kresanek: Bratislava's mayor pioneered country's entry into the international capital markets

Peter Kresanek, Bratislava's soft-spoken mayor, says the communists apparently wanted to raise the population to 1m to rival Prague. But even at half that level they left behind a host of problems, which he is now trying to sort out. Mr Kresanek laments the fact that while it produces 33 per cent of Slovak gross domestic product and 37 per cent of the total tax take, Bratislava is entitled to just 8 per cent of national revenues because it has just 8 per cent of the population.

Lack of money convinced the entrepreneurial Mr Kresanek to pioneer Slovakia's entry into the international capital markets. Last December, Bratislava raised Y6.5bn through a samurai bond issue with Nomura International, which is now being distributed to fund many of the reconstruction projects currently under way in the city. He says another bond might be issued in 18 months, depending on whether his ambitious plans to build a metro system in the city are approved.

A metro system is the only solution to the city's commuting problem, Mr Kresanek says. A plan was first mooted in the 1980s, and an agreement was signed with French contractors in 1992, but the government has not yet offered to underwrite the cost with loan guarantees. While state money is pouring into Banska Bystrica and other central Slovak towns, Bratislava has been squeezed out because the government views it as an opposition stronghold. Mr Kresanek, in his second term as a popularly-elected mayor, is a Christian Democrat.

Official neglect is visible, especially at night. Poor public lighting and potholed streets make walking hazardous. Many locals blame the government for keeping them in the dark.

For the moment Mr Mečiar appears to have put on hold his wish to move the capital away from Bratislava. It would be a severe blow to the city's prestige, which has already taken a knock after losing its status as a separate region under a new regional administration plan.


Bratislava: The Danube flows between the old city and the new town of Petrzalka, site of a huge housing estate Picture: Kevin Done


Rudolf Schuster: steering an independent course for Košice and himself. Picture: Kevin Done

A beguiling mix

Steel centre learns to live with an ugly inheritance

Ask a resident of eastern Slovakia what country he or she hails from and they will most likely reply: "I'm from Košice". Even government officials in Bratislava, 400km to the west, sometimes grumble about "the independent republic of Košice".

While Košice does not have a seat at the United Nations, it is decidedly a state of mind for its quarter of a million inhabitants. The city is a beguiling mix of Slovak, Ruthenian, Hungarian, Ukrainian and German cultures that it jealously guards and celebrates, and that lend it a metropolitan air that communism, Stalinist industrialisation and latter-day nationalism have failed to crush.

Rudolf Schuster, the city's feisty mayor, embodies this *eclectic inheritance to a* remarkable degree. A renaissance man of sorts – he is a diplomat, poet, writer, world traveller, spirits distiller, former steelworker and federal politician comfortable in four languages – he has steered an independent course for himself and the city through the maze of pre and post-independence Slovak politics to emerge as one of the country's most admired figures, a possible candidate for president if Michal Kováč, the incumbent, steps down when his current term ends in 1998.

One of Mr Schuster's most notable achievements may have been to help Košice learn to live with its ugliest and most important inheritance – the huge VSZ iron and steel plant on the outskirts of the city. Built in the 1960s and now undergoing modernisation, VSZ has altered the character of the city dramatically in recent years to the extent that Košice today is the ultimate company town, depending almost entirely on the plant for its prosperity.

Some 100,000 of the city's inhabitants depend on VSZ for their livelihood, directly and indirectly, Mr Schuster estimates. He worked there in the 1960s – "it was the best school I ever went to," he observes – and is more aware than most of the relationship between town and plant. For the cash-strapped town council, VSZ is often a source of cheap loans – it bankrolled last year's visit to the area by Pope John Paul II to the tune of Sk 40m – but for VSZ the council, and especially the mayor, can be a thorn in its side.

Late last year a gas leak at the plant killed 11 employees. Angered by signs that the company was covering up the extent of the leak, Mr Schuster went to see for himself, to the irritation of VSZ executives who barred him. Relations have since been patched up, and VSZ has agreed to his request to open an atmospheric monitoring station in the city to keep local people informed about air pollution, which shrouds the city in a permanent haze.

Mr Schuster is now being wooed by political parties in Bratislava, but this former communist party member says he has had enough of party politics. He acknowledges the speculation on his presidential ambitions but is guarded on his chances, especially without party backing. For the moment he is happy to be king of quasi-independent Košice. "I'm a fighter for my town," he says.

■ **Media** • by Kevin Done

The news is making news

State has lost its stranglehold on the electronic and printed word

The opening of the first national, privately-owned terrestrial commercial television station in Slovakia is posing a potent challenge to the stranglehold of the state-owned television channels.

The launch of TV Markiza, co-owned by Central European Media Enterprises (CME), the US pioneer of commercial television in east Europe, carries particular significance in a country, where the independence of the media has been perceived to be under serious threat from the government.

CME is keen to measure its commercial success. It has already claimed an average audience share of 41 per cent in the areas it covers, ahead of the state channels STV1 and STV2 in its first few weeks of broadcasting.

But despite the appeal to a mass audience, it is the news and current affairs programmes of TV Markiza, which are expected to come under the closest scrutiny as they develop an alternative to the news coverage of state television.

When the present government coalition led by Vladimir Mečiar regained power in late 1994, one of its first moves was to appoint new Television and Radio Councils, which quickly hired new TV and radio directors.

"The state-owned electronic media have become increasingly politicised," claimed the last world human rights report issued by the US state department. "The diversity of views, political coverage, and objectivity of news and documentary programming on Slovak television have dropped sharply... opposition views are given scant coverage in news programmes", it said.

TV Markiza, the operating name of Slovenska Televizna Spolocnost (Slovak Television Company), is a joint venture between CME and Markiza-Slovakia, the local licence-holding company owned jointly by Pavol Rusko, general director of the station, and Sylvia Volzova, the station's external affairs director.

New ownership is also heralding important changes in the print media, where some of Slovakia's most powerful entrepreneurs and companies are staking out their claims.

The emergence of VSZ, the steelmaker and Slovakia's biggest company, as the dominant owner of the national daily Narodna Obroda was regarded initially as an attempt by a company closely allied to the government – its former vice-president, Alexander Rezes, is currently minister for transport and telecommunications – to gain influence in the media.

Jan Smerek, chief executive of VSZ, says the group acquired the newspaper because "we have an information problem. We are trying to solve this problem. It is very difficult to find the right information about Slovakia or about VSZ. We want to use the newspaper to inform with independent information, not comment and not political."

The acquisition began badly, and interference by VSZ in the running of the newspaper quickly led to an offer of resignation by the editor, Tatiana Repkova, one of Slovakia's most highly respected journalists. Ms Repkova's offer brought positive results: VSZ agreed to appoint a new board to the publishing company and to give a new contract to Ms Repkova, guaranteeing to her satisfaction the editorial independence of the paper.

The other arrival in the Slovak media scene is Jozef Majsky. He is one of the most colourful of a new breed of highly successful Slovak entrepreneurs, and has taken advantage of privatisation and the turbulent years of transition to build a business group, Sipox Holding, which, he claims, has an annual turnover of more than $600m.

The main Sipox interests are in mechanical engineering, textiles, construction, hotels and trading, but Mr Majsky is also becoming a powerful player in the media. He has gained majority control of both Radio Twist and Sme, the national daily, and also has interests in local television.

Both Sme and the radio station have become bastions of the anti-government media in Slovakia, and the newspaper has taken a leading role in investigating allegations of involvement by the intelligence services in the kidnapping and abduction to Austria last year of Mr Michal Kovac Jnr, the son of President Michal Kovac.